



# GenVec

PROGRESS  
2007  
PROGRESS REPORT



2007 ANNUAL REPORT

Conveo (NYSE: CVO), headquartered in Stamford, Connecticut, is a leader in the management and distribution of print and related products and services. The Company provides its customers with low cost solutions within its core businesses of commercial printing and packaging, envelope, form, and label manufacturing, and publishing; offering one stop services from design through fulfillment. With over 10,000 employees worldwide, Conveo delivers everyday for its customers through a network of production, fulfillment, content management, and distribution facilities across the globe.

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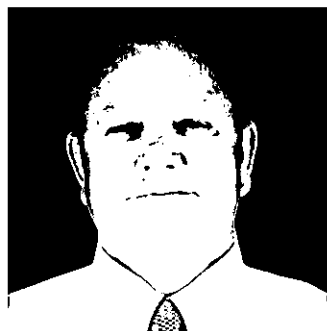
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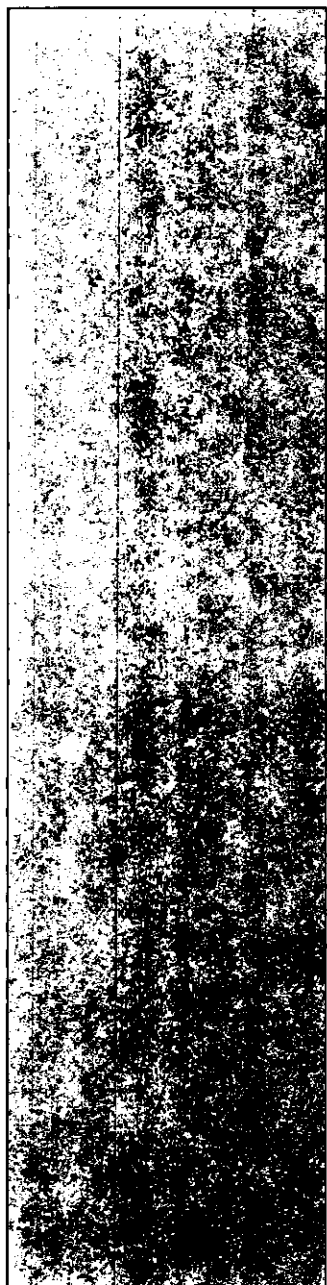
# delivering value & protecting the environment

At Cenveo, we made some bold promises for growth in 2007. And while we encountered tough challenges during the year, we still came out ahead and kept our promises. We made several key acquisitions, focused more squarely on our core segments, broadened our global reach, and achieved our financial commitments. And for 2008, we look forward to delivering even greater value to our shareholders.

Robert G. Burton, Sr.



**Robert G. Burton, Sr.**  
Chairman and  
Chief Executive Officer



## MESSAGE TO OUR SHAREHOLDERS

When I arrived as the company's senior manager in September 2005, I committed to our employees and investors that Cenvéo would become the industry's premier printing and envelope company.

We would become the low-cost producer in our industry to improve our performance every day and deliver record financial performance.

We would provide outstanding value for our customers and shareholders by implementing a proven game plan that has worked for me time and again over my business career of more than 35 years.

Let's take a look at our scorecard for 2007...

## TACKLING OUR 2007 GAME PLAN

At the beginning of 2007, we focused on a four point game plan for success. It included:

1. Growing our existing businesses organically
2. Looking for the right acquisitions to grow our business platform in target niches
3. Providing customers with one-stop solutions
4. Increasing margins by controlling our expenses and delivering on our financial commitments to our shareholders.

Here's how the scorecard looks today:

### 1. We're growing our existing business organically

Even in a challenging market environment, Cenvéo continues to expand its business by choosing and zeroing in on high-potential business lines that represent attractive growth opportunities. Among them:

Envelopes. With direct mail continuing to remain the leading choice for direct marketers to reach their customers, this growth area of our business platform has huge opportunities for future expansion.

Packaging. More than ever, companies are building and reinforcing their brands in the marketplace by focusing on the packaging that surrounds their products.

Labels. Our Rx Technology business focuses on pharmaceutical drug labels, clearly a significant growth business as baby boomers reach the age of increased prescription usage.

## 2. We're making prudent acquisitions in our target niches

In 2007, we made four key strategic acquisitions to enhance our existing operations, as well as extend our reach into new markets that we know very well. All are high-quality, market leaders in their respective markets.

**Printegra.** Acquired February 2007. One of the nation's largest manufacturers of short-run business documents, Printegra represents a natural enhancement of Cenveo's existing envelopes, forms and labels product line. This geographic expansion of our comprehensive manufacturing network allows us to better serve local and regional customers, while adding flexibility to our national platform offering.

**Cadmus.** Acquired March 2007. An ideal complement to Cenveo's product line, Cadmus allows us to expand into a leading position in the scientific, technical and medical journal market, as well as reinforce our short-run publication expertise. It also makes us a global leader in the specialty packaging business. Cadmus has delivered record results under new President Harry Vinson and his management team. Harry was part of my team at World Color and the Moore Corporation.

**Color Graphics.** Acquired July 2007. ColorGraphics is considered one of the country's finest commercial printers. Recognized for producing high-quality annual reports, car books, catalogs and other corporate communication materials, it has generated a stellar, 50-year reputation and impressive client list. This acquisition firmly positions Cenveo as the premier West Coast commercial printer.

**Commercial Envelope.** Acquired August 2007. This company's world-class operations are complementary to ours, and the combination will enhance our ability to service the direct mail marketplace. The combination of two industry leaders yields the strongest, most efficient and most diversified asset platform in the envelope industry. Dean Cherry, a seasoned printing executive, has joined our team this year as President of our envelope group. He has worked with me for more than 20 years, most recently at World Color and the Moore Corporation.

## 3. We're providing customers with one-stop solutions

The goal here is to give our customers better ways to manage their print spend. One way to do so is to leverage Cenveo's impressive economies of scale. To that end, we continue to invest in advanced technology and

### comparison of five-year cumulative total return

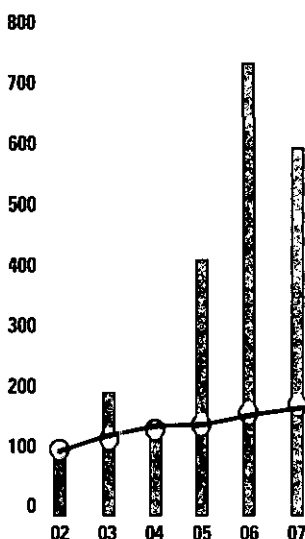
The following graph presents the cumulative total yearly shareholder return from investing \$100 on December 31, 2002, in each of:

- Cenveo's common stock
- Standard & Poor's 500 Index, which is a broad equity market index published by Standard & Poor's; and
- Standard & Poor's 1500 Commercial Printing Index, which is an equity market index published by Standard & Poor's of companies that are in the same industry as Cenveo.

The amounts shown assume that any dividends were reinvested. Our common stock is listed on the New York Stock Exchange under the symbol "CVO."

Mr. Burton and his management team assumed control of Cenveo on September 12, 2005.

■ Cenveo  
○ S&P 500 Index  
— S&P 1500 Commercial Printing Index



When I arrived in 2005, I promised that Cenveo would reduce expenses by \$100 million. It was a truly aggressive goal, and many said it couldn't be done. But we proved again that we deliver what we promise.



equipment, continually updating our facilities to deliver truly integrated, end-to-end production capabilities that are efficient and cost-effective.

In addition to focusing on targeted niche businesses, we're also emphasizing cross-selling among them. By leveraging the customer relationships and credibility we've established over the years, we're capitalizing on incremental opportunities. We're marketing our entire line of products and services versus mere single-product categories.

To do so, we're changing the culture of our sales organization across the company. While our representatives continue to focus on their respective areas of expertise, they are also asking more questions regarding the customer's overall print requirements and offering cost-effective solutions. This provides added value for the customer — and incremental revenue potential for Cenveo.

#### **4. We're controlling costs, increasing margins and delivering results**

When I arrived in 2005, I promised that Cenveo would reduce expenses by \$100 million. It was a truly aggressive goal, and many said it couldn't be done. But we proved again that we deliver what we promise.

At this time, the company's operating margins were unacceptable at 3%. We promised they'd grow to at least 9% in two years. I am proud to say that by the end of 2007, we achieved that goal as well. Our current goal is to increase margins to over 10% in the future — a goal successfully achieved at other companies we've managed.

I am pleased to report that in 2007 we delivered our financial commitments despite a challenging economic environment. We grew our revenues and operating income and at the same generate stronger free cash flow.

A key to increasing margins is to be ever vigilant about costs. For 2008, we have initiated a \$25-million "war on waste," committing ourselves to eliminating inefficiencies and reducing costs in all our processes, across all our companies and business divisions. This is a mandatory, company-wide effort.

#### **PUSHING THE PRODUCT INNOVATION ENVELOPE**

Cenveo continues to "push the envelope" in the area of product innovations. Our technological enhancements, many of which drive our printing presses, have opened up opportunities never before realized.

These enhancements accelerate our equipment's performance, improve quality control, expand factory-certified throughput and capabilities, and provide additional output alternatives.

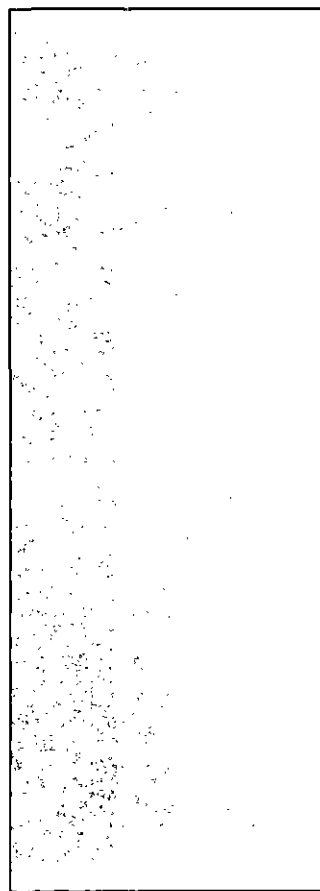
Cenveo innovations are certainly not limited to traditional printing. Consider, for example, our new Green-Key,<sup>™</sup> a biodegradable, eco-friendly alternative to plastic hotel keycards. Also, our Cadmus Digital Art Analysis is a systematic solution for evaluating the types of visual adjustments that could otherwise produce unintentional or undesirable changes in digital image quality. By blending advanced software detection with trained inspectors, this service elevates art analysis to a whole new level. These products and services are reflective of our cutting-edge technology, and they represent growth opportunities for the company.

#### **ENVIRONMENTAL SUSTAINABILITY AND STEWARDSHIP**

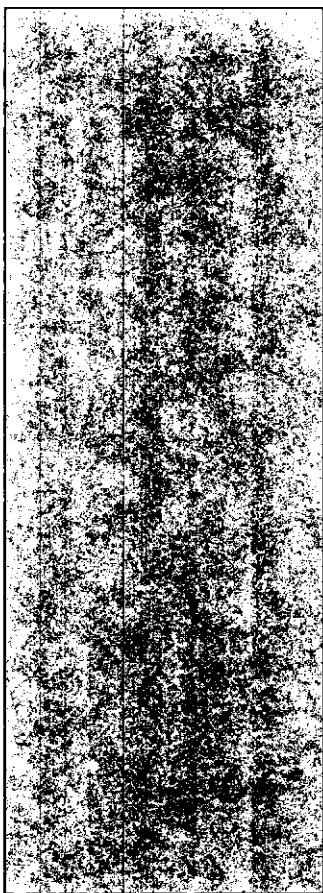
Beyond traditional expectations of high quality, low cost and reliable delivery, we recognize that our customers, shareholders and employees expect us to be responsible stewards of the environment. So environmental improvement and conservation are integrated into all aspects of our business — from minimizing the environmental impact of our operations to offering and encouraging the use of sustainable and/or eco-certified materials.

Cenveo's environmental sustainability and stewardship program takes many forms, including selecting and sourcing raw materials and modifying our operations to reduce our environmental footprint. We are an industry leader in these areas:

- Paper - Many of our print and packaging facilities have Chain-of-Custody certification under the Forest Stewardship Council. We are also aggressively pursuing certification under the Sustainable Forestry Initiative. These certifications allow us to ensure that our paper comes from well-managed, sustainable forests.
- Ink, adhesives and solvents - Many inks, adhesives and solvents contain volatile organic compounds (VOCs) that contribute to air pollution. Cenveo's product substitution efforts have helped reduce these concerns and the potential environmental impact.
- Energy and conservation - We continuously look for ways to reduce



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The printing industry took some tough hits last year — a tightening credit market, a major postal rate increase, rising paper costs — and we still came out triumphant and delivered record results and added substantial value.

energy, conserve natural resources, and eliminate waste. In fact, Cenvéo regularly recycles over 130,000 tons of paper annually.

- **Pollution control** - Cenvéo's innovative, sophisticated pollution control measures ensure compliance with government regulations. Case in point: Our Anderson Lithograph facility in Los Angeles has received California's "Clean Air Award" and the Governor's "Environmental and Economic Excellence Award."

While I am proud of these and other accomplishments, we always strive to do better. Environmental sustainability and stewardship, like any other core component of our business, require improvements that align with the concerns and aspirations of our customers, employees and shareholders. On behalf of the entire Cenvéo organization, you have my commitment that we will continue to make these improvements continuously and enthusiastically.

#### **IN CONCLUSION...**

2007 was both a challenging and gratifying year for us at Cenvéo. While erratic financial markets tested our fortitude, they also reinforced my resolve to continue on the successful path that I've walked for more than 35 years. The printing industry took some tough hits last year — a tightening credit market, a major postal rate increase, rising paper costs — and we still came out triumphant and delivered record results and added substantial value.

Our veteran team has grown ever stronger, as we've laid the foundation for our future by acquiring companies and adding talented players who embody the very finest that our industry has to offer in passion experience, intellect and character. Just as importantly, our managers understand that we work for our investors and need to achieve our financial commitments.

On a personal note, as we leave 2007, I am very proud of our record financial performance. My family continues to remain the largest individual shareholder of our company, owning over 4 million shares and continuing to raise our ownership monthly via open market purchases and participation in the company's Employee Stock Purchase Plan. Also, in April 2008, I purchased over \$1 million worth of Cenvéo shares in the open market. I ask all investors, "How many CEO's have continued to



purchase their company's stock every quarter since assuming their role?"  
The answer is very few.

In 2008, we are faced with major challenges: continuing turmoil in the credit markets, a slowing economy and weakness across the financial service sector. We will combat these issues day by day, asking our managers to wear multiple hats and do more with less.

We will also continue to look into growing our business through organic growth and thoughtful strategic acquisitions. We continue to see many opportunities to pursue accretive acquisition opportunities to grow our company and achieve our long-term goals. We will continue to be opportunistic as we grow our business.

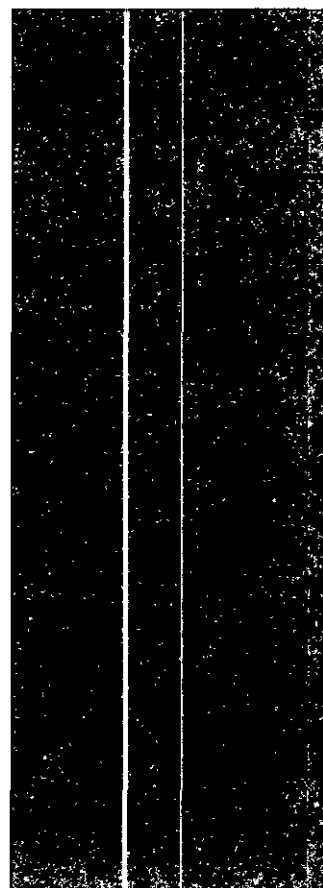
Looking forward, I remain as optimistic as ever about Cenveo's future. My commitment is to be the senior manager of Cenveo to the year 2012, or when we have created a substantial return for our shareholders. As you all know, I have been a part of two other highly successful printing turnarounds, and I feel that we will be triumphant here as well. It has been an honor and privilege to work for our investors and manage this major turnaround in the printing industry. Thank you for allowing me to do what I do best.

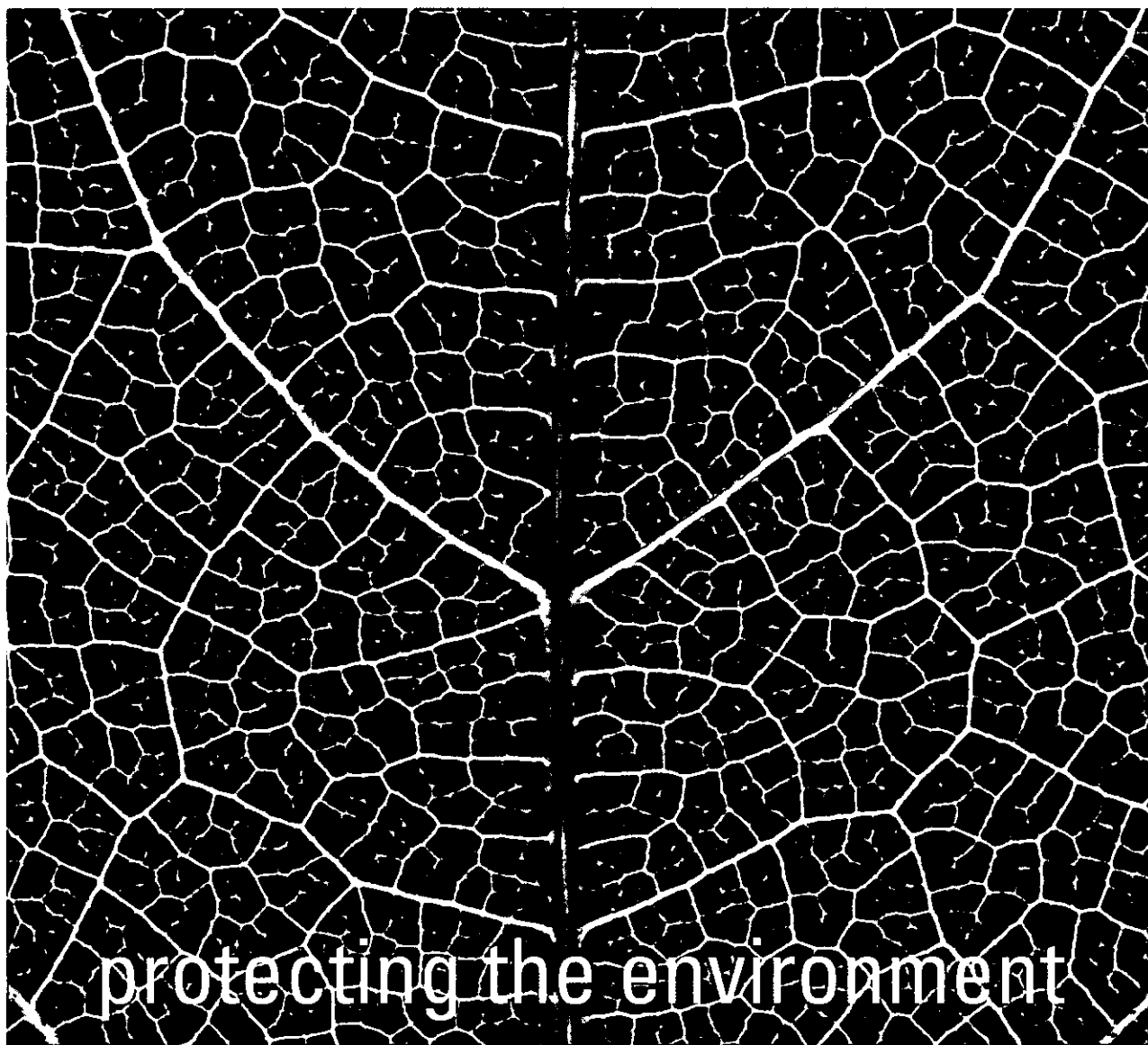


**Robert G. Burton Sr.**

**Chairman and Chief Executive Officer**

How many CEO's have  
continued to purchase  
their company's stock  
every quarter since  
assuming their role?  
The answer is very  
few.





#### OUR OWN COOKING

Consider this: The annual report you're reading was printed at Cenvéo's Anderson Lithograph facility, whose integrated "Green Printing" process and use of recycled fiber content saved the following on this document alone: 29 fully grown trees; 12,500 gallons of water; 17 million BTUs of energy; 1,300 pounds of solid waste; 2,500 pounds of greenhouse gasses; 28 pounds of aluminum; and 185 pounds of air-polluting volatile organic compound (VOC) emissions. By utilizing Anderson Lithograph and their "totally enclosed" production environment, this annual report can be printed 40 more times and have the same environmental effect as having it printed once in a "non-enclosed" print facility.



recyclable keycard



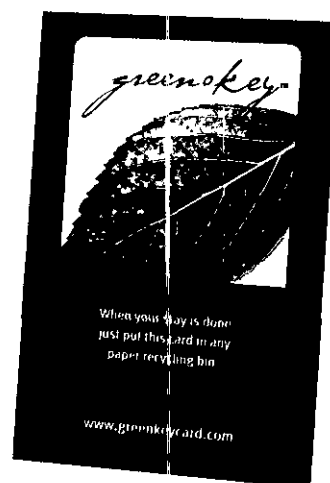
recyclable keycard

can help position hotel as environmentally friendly guests.

material is biodegradable, less expensive than plastic, and has a high turnover rate.

promoted as a "single use" card with no return required, seen as addressing concerns about identity theft.

"Sanitary" - "Single Use" card concept is sanitarier than passing the same plastic card through multiple guests.



# product innovation

## A KEY TO ECO-FRIENDLINESS

At Cenveo, we pride ourselves on thinking out of the box and being at the cutting edge of new and innovative products. One example is Green-Key,<sup>™</sup> an eco-friendly alternative to plastic hotel keycards. Produced from biodegradable paperboard that's recyclable, renewable and economical, Green-Key gives travel and leisure companies a low-cost mini-billboard to promote their commitment to a greener environment.



Cenveo did not grow to be the North American third-largest printer by thinking small. Through a well-devised game plan that combines organic growth with strategic acquisitions, we have achieved a global presence. Today, we are an internationally respected, \$2.4-billion premedia, printing, fulfillment and direct mail company, with over 10,000 employees manning over 60 facilities across North America, South America, Europe and Asia.

From Minneapolis to Mumbai, from Charlotte to Shanghai, from Dublin to Dongguan, from Toledo to Toronto to Turkey to Thailand to Taiwan, you'll find Cenveo's facilities offering myriad services to a clientele that includes some of the world's most visible brands.

#### **END-TO-END IN INDIA**

Our 2007 acquisition of Cadmus has broadened our capabilities not only geographically, but also in terms of the breadth of services we can offer our customers. At Cadmus's India-based subsidiary, KnowledgeWorks Global Limited, nearly 600 professionals provide a full range of editorial, design, prepress and content processing services to the scientific, technical, medical and educational markets. It is a truly end-to-end solution that we plan on expanding into other parts of our business.

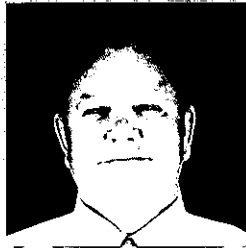
#### **PAN-GLOBAL PACKAGING**

Cenveo's packaging operations have gone global as well. As product manufacturers take their operations overseas, Cenveo is meeting them wherever they establish facilities — China, Vietnam, Honduras, Costa Rica, and so on. So, instead of designing, constructing and printing packages on one continent and shipping them to a manufacturer's facility on another, we are realizing cost-efficiencies by setting up shop right in their backyard.

#### **KEEPING INVENTORY ON TRACK**

Our service doesn't stop when the product rolls off the press. Through our real-time inventory management system, customers have an open window into global inventory levels and access to numerous reporting options. This minimizes issues with tracking materials via multiple vendors across multiple worldwide locations.

Economic globalization can be a double-edged sword. While it expands business, it can dramatically squeeze supply chains and decentralize product manufacturing worldwide. Cenveo helps companies achieve consistent printing and packaging results that support their brand integrity, while also ensuring that the right printing, packaging and fulfillment services are at the right location at the right time.



**ROBERT G. BURTON, SR.** (1)  
Chairman of the Board and  
Chief Executive Officer of Cerveo



**PATRICE M. DANIELS** (1) (2) (3) (4)  
Financial Advisory



**LEONARD C. GREEN** (1) (3) (4)  
President of The Green Group



**DR. MARK J. GRIFFIN** (2) (3) (4)  
Headmaster and Founder  
of the Eagle Hill School



**ROBERT B. OBERNIER** (1) (3) (4)  
Chairman and Chief Executive Officer  
of Horizon Paper Company



**GERALD ARMSTRONG** (1) (2) (3) (4)  
Executive Vice President  
Earth Water Global, LLC

#### BOARD OF COMMITTEES

- (1) Executive Committee
- (2) Nominating & Governance Committee
- (3) Compensation Committee
- (4) Audit Committee

board of directors

## SELECTED FINANCIAL DATA

The following consolidated selected financial data has been derived from, and should be read in conjunction with, the related consolidated financial statements, either elsewhere in this report or in reports we have previously filed with the Securities and Exchange Commission.

| (in thousands, except per share data)                 | Years Ended December 31,    |                        |             |             |             |
|---|-----------------------------|------------------------|-------------|-------------|-------------|
|   | 2007                        | 2006 <sup>(2)</sup>    | 2005        | 2004        | 2003        |
| Net sales   | <b>\$2,046,716</b>          | \$1,511,224            | \$1,594,781 | \$1,597,652 | \$1,531,486 |
| Restructuring, impairment and other charges           | <b>(40,086)</b>             | (41,096)               | (77,254)    | (5,407)     | (6,860)     |
| Operating income (loss)                               | <b>137,550</b>              | 63,395                 | (26,310)    | 37,428      | 47,798      |
| Loss on early extinguishment of debt                  | <b>(9,256)</b>              | (32,744)               | —           | (17,748)    | —           |
| Income (loss) from continuing operations              | <b>23,985</b>               | (11,148)               | (148,101)   | (44,708)    | (17,884)    |
| Income from discontinued operations, net of taxes     | <b>16,796<sup>(1)</sup></b> | 126,519 <sup>(3)</sup> | 13,049      | 25,000      | 23,356      |
| Cumulative effect of change in accounting principle   | —                           | —                      | —           | —           | (322)       |
| Net income (loss)                                     | <b>40,781<sup>(1)</sup></b> | 115,371 <sup>(3)</sup> | (135,052)   | (19,708)    | 5,150       |
| Income (loss) per share from continuing operations:   |                             |                        |             |             |             |
| Basic   | <b>0.45</b>                 | (0.21)                 | (2.96)      | (0.94)      | (0.38)      |
| Diluted   | <b>0.44</b>                 | (0.21)                 | (2.96)      | (0.94)      | (0.38)      |
| Income (loss) per share from discontinued operations: |                             |                        |             |             |             |
| Basic   | <b>0.31</b>                 | 2.38                   | 0.26        | 0.53        | 0.49        |
| Diluted   | <b>0.31</b>                 | 2.38                   | 0.26        | 0.53        | 0.49        |
| Net income (loss) per share:                          |                             |                        |             |             |             |
| Basic   | <b>0.76</b>                 | 2.17                   | (2.70)      | (0.41)      | 0.11        |
| Diluted   | <b>0.75</b>                 | 2.17                   | (2.70)      | (0.41)      | 0.11        |
| Total assets  | <b>2,002,722</b>            | 999,892                | 1,079,564   | 1,174,747   | 1,111,446   |
| Total long-term debt, including current maturities    | <b>1,444,637</b>            | 675,295                | 812,136     | 769,769     | 748,961     |

<sup>(1)</sup> Includes a \$17.0 million gain on a disposal of discontinued operations, net of taxes of \$8.4 million.

<sup>(2)</sup> As Restated, see Note 2 to the consolidated financial statements included in this Annual Report.

<sup>(3)</sup> Includes a \$113.5 million gain on a disposal of discontinued operations, net of taxes of \$22.5 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations, which we refer to as MD&A, of Cenveo, Inc., which we refer to as Cenveo, and its subsidiaries should be read in conjunction with our consolidated financial statements included elsewhere herein. During the first quarter of 2007, we acquired PC Ink Corp., which we refer to as Printegra, and Cadmus Communications Corporation, which we refer to as Cadmus. During the third quarter of 2007, we acquired Madison/Graham ColorGraphics, Inc., which we refer to as ColorGraphics, and Commercial Envelope Manufacturing Co. Inc., which we refer to as Commercial Envelope. Certain statements in this report may constitute "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the use of terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "plan," "foresee," "believe" or "continue" and similar expressions, or as other statements that do not relate solely to historical facts. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Management believes these statements to be reasonable when made. However, actual outcomes and results may differ materially from what is expressed or forecasted in these forward-looking statements. As a result, these statements speak only as of the date they were made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In view of such uncertainties, investors should not place undue reliance on our forward-looking statements.

Such forward-looking statements involve known and unknown risks, including, but not limited to, changes in general economic, business and labor conditions.

**Introduction and Executive Overview**

We are one of the largest diversified printing companies in North America, according to the December 2007 Printing Impressions 400 report. Our broad portfolio of products includes envelope, form, and label manufacturing, commercial printing and packaging and publisher offerings. We operate from a global network of approximately 78 printing and manufacturing, content management and distribution facilities, which we refer to as manufacturing facilities, serving a diverse base of customers. Since late 2005, under our new management team's leadership, we have significantly improved profitability by re-aligning our operating segments, centralizing and leveraging our purchasing spend, consolidating plants and reducing corporate and field staff. In addition, we have divested non-strategic businesses and made investments through acquisitions of highly complementary companies and capital expenditures.

We operate in two complementary segments: Envelopes, Forms and Labels and Commercial Printing.

**Envelopes, Forms and Labels.** The segment operates approximately 38 manufacturing facilities, primarily in North America and primarily specializes in the design, manufacturing and printing of:

- direct mail and customized envelopes for advertising, billing and remittance;
- custom labels and specialty forms; and
- stock envelopes, labels and business forms.

We offer direct mail products used for customer solicitations and custom envelopes used for billing and remittance by end users including banks, brokerage firms and credit card companies. We manufacture and print customized envelopes used as inserts within wholesale and retail product catalogs. We print a diverse line of custom labels and specialty forms for a broad range of industries including manufacturing, warehousing, packaging, food and beverage, and health and beauty, which we sell through an extensive network of resale distributors. For our small and mid-size business forms and labels customers, we print a diverse line of custom products, including both traditional and specialty forms and labels for use with desktop PCs and laser printers. Our printed office products include business documents, specialty documents and short-run secondary labels, which are made of paper or film affixed with pressure-sensitive adhesive and are used for mailing, messaging, bar coding and other applications. We produce pressure-sensitive prescription labels for the retail pharmacy chain market. We also produce a broad line of stock envelopes, labels and traditional business forms that are sold through independent distributors, contract stationers, national catalogs for the office products market and office products superstores.

**Commercial Printing.** The segment operates approximately 40 manufacturing facilities in the United States, Canada, the Caribbean Basin and Asia and primarily offers print, design and content management offerings covering a wide array of products for a broad group of customers. Our commercial printing segment provides one-stop print, design and content management offerings, including:

- high-end color printing of a wide range of premium products for national and regional customers;
- general commercial printing for regional and local customers;
- scientific, technical and medical ("STM") journals and special interest and trade magazines for not-for-profit organizations, educational institutions and specialty publishers; and
- specialty packaging and high quality promotional materials for multinational consumer products companies.

Our commercial print offerings primarily include electronic prepress, digital asset archiving, direct-to-plate technology, high-quality color printing on web and sheet-fed presses and digital printing. The commercial printing products we produce include annual reports, car brochures, direct mail products, specialty packaging, journals and specialized periodicals, advertising literature, corporate identity materials, financial printing, books, directories, calendars, brand marketing materials, catalogs, and maps. In our journal and specialty magazine business, we offer complete solutions, including editing, content processing, content management, electronic peer review, production and reprint marketing. Our primary customers for our specialty packaging and promotional products are pharmaceutical, apparel, technology and other large multi-national consumer product companies. Our commercial printing segment primarily caters to the financial services, publishing, telecommunications, pharmaceutical, and consumer products industries:



**Business Strategy.** Our goals are to improve on profitability and pursue disciplined growth. The principal features of our strategy are:

- **Improve our Cost Structure and Profitability.** We have implemented two cost savings plans: the 2007 Cost Savings and Integration Plan, which we refer to as the 2007 Plan, and the 2005 Cost Savings and Restructuring Plan, which we refer to as the 2005 Plan. The 2007 Plan relates to activities undertaken in connection with our 2007 acquisitions of Printegra, Cadmus, ColorGraphics and Commercial Envelope, which we refer to as the 2007 Acquisitions. Under the 2007 Plan, we closed six manufacturing facilities and integrated those operations into acquired and existing operations. The 2005 Plan, which was completed in the fourth quarter of 2007, included such actions as consolidating our purchasing activities and manufacturing platform including closing two manufacturing facilities in 2007 that were integrated into existing operations, reducing corporate and field personnel, streamlining our information technology infrastructure and elimination of discretionary spending. We continue to implement cost-savings initiatives that will improve our profitability, both in connection with acquisitions and our ongoing operations. We regularly assess our operations with a view toward eliminating operations that are not aligned with our core United States operations or are underperforming. For example, we divested our Canadian envelope manufacturing business, Supremex, Inc., and certain other related assets through a series of transactions in 2007 and 2006. In 2006, we sold three small and non-strategic businesses and closed three facilities that were underperforming. We continue to evaluate the sale or closure of facilities that do not meet our strategic goals or performance targets.
- **Capitalize on Scale Advantages.** We believe there are significant advantages to being a large competitor in a highly fragmented industry. We seek to capitalize on our size, geographic footprint and broad product lines to offer one-stop shopping and enhance our overall value proposition. As we grow in scale and increase our operating leverage, we seek to realize better profit margins through improvements in manufacturing facility utilization.
- **Enhance the Supply Chain.** We continue to work with our core suppliers to improve all aspects of our purchasing and other logistics as well as to ensure a stable source of supply. We seek to lower costs through more favorable pricing and payment terms, more effective inventory management and improved communications with vendors. We continue to consolidate our suppliers of key production inputs such as paper and ink, and believe that significant opportunities exist in optimizing the rest of our supply chain.
- **Seek Products and Processing Improvements.** We encourage regular review of our product offerings, manufacturing processes and distribution methods to ensure that we take advantage of new technology when practical and meet the changing needs of our customers and the demands of a global economy. We seek to enter into growth product markets in which we may have competitive advantages based on our existing infrastructure, operating expertise and customer relationships. Pharmaceutical labels, direct mail, and specialty packaging are examples of growth areas into which we recently expanded. By expanding our product offerings, we intend to increase cross-selling opportunities to our existing customer base and mitigate the impact of any decline in a given market.
- **Pursue Strategic Acquisitions.** We continue to selectively review opportunities to expand within growing niche markets, broaden our product offerings and increase our economies of scale through acquisitions. We will pursue reasonably-priced opportunities that we expect to yield greater profitability and cash flow or improved operating efficiencies, such as increased utilization of our assets. Since July 2006, we have completed five acquisitions that we believe will continue to enhance our operating margins and deliver economies of scale. We believe our acquisition strategy will allow us to both realize increased revenue and cost-saving synergies, and apply our management expertise to improve the operations of acquired entities. For example, our acquisition of Commercial Envelope strengthened our position in the direct mail market and will allow us to enhance our raw material purchasing power and rationalize our manufacturing platform. Our acquisition of Rx Technology in July 2006 gave us an entry into the pharmaceutical labels business, which has high barriers to entry, while also allowing us to cross-sell a broader product platform to new and existing customers.

(continued)

**Consolidated Operating Results**

Management's Discussion and Analysis of Financial Condition and Results of Operations includes an overview of our consolidated results for 2007, 2006 and 2005 followed by a discussion of the results of each of our business segments for the same period and gives effect to the restatement in 2006. See Note 2 to the consolidated financial statements included in this Annual Report. Our results for the year ended December 31, 2007 include the operating results of the 2007 Acquisitions, subsequent to their respective acquisition dates, except for ColorGraphics which is included in our operating results from July 1, 2007. Since the 2007 Acquisitions results are not included for a full year in 2007, we expect that our net sales and operating income will increase next year. See Note 3 to the consolidated financial statements included in this Annual Report.

In 2007, we continued to encounter competitive pricing pressures that result from excess capacity in the industry in concert with declining or weak volume growth in many of our markets. In addition, the cost of paper, film and other raw materials for our products has increased. To compete effectively in an environment of excess capacity and rising costs, we are focused on improving productivity and creating operating leverage by reducing our costs. In 2007, we closed two commercial printing plants and consolidated three commercial printing plants, four documents plants and two envelope plants in connection with the integration of the 2007 Acquisitions. In 2006, we sold three small non-core printing operations, closed three printing operations and consolidated six envelope plants and two printing operations. These consolidation activities have assisted us in becoming more efficient at operating our plants at higher levels of utilization. We also continue to redeploy our assets throughout our manufacturing platform to reduce future capital expenditures.

A summary of our consolidated statement of operations is presented below. The summary presents reported net sales and operating income (loss). See Segment Operations below for a summary of net sales and operating income (loss) of our operating segments that we use internally to assess our operating performance. Division net sales exclude sales of divested operations. Our fiscal year ends on the Saturday closest to the last day of the calendar year. See Notes 1 and 19 to the consolidated financial statements included in this Annual Report.

|  | Years Ended December 31, |                    |                     |
|--|--------------------------|--------------------|---------------------|
| (in thousands, except per share amount)                      | 2007                     | 2006               | 2005                |
| Division net sales   | <b>\$2,046,716</b>       | \$1,501,869        | \$1,551,008         |
| Divested operations  | —                        | 9,355              | 43,773              |
| <b>Net sales</b>   | <b>\$2,046,716</b>       | <b>\$1,511,224</b> | <b>\$1,594,781</b>  |
| Operating income (loss):                                     |                          |                    |                     |
| Envelopes, forms and labels                                  | <b>\$ 117,342</b>        | \$ 82,753          | \$ 51,830           |
| Commercial printing  | <b>55,085</b>            | 13,606             | (30,675)            |
| Corporate  | <b>(34,877)</b>          | (32,964)           | (47,465)            |
| Total operating income (loss)                                | <b>137,550</b>           | 63,395             | (26,310)            |
| (Gain) loss on sale of non-strategic businesses              | <b>(189)</b>             | 2,035              | 4,479               |
| Interest expense, net  | <b>91,467</b>            | 60,980             | 73,821              |
| Loss on early extinguishment of debt                         | <b>9,256</b>             | 32,744             | —                   |
| Other expense (income), net                                  | <b>3,131</b>             | (78)               | 1,143               |
| Income (loss) from continuing operations before income taxes | <b>33,885</b>            | (32,286)           | (105,753)           |
| Income tax expense (benefit)                                 | <b>9,900</b>             | (21,138)           | 42,348              |
| Income (loss) from continuing operations                     | <b>23,985</b>            | (11,148)           | (148,101)           |
| Income from discontinued operations, net of taxes            | <b>16,796</b>            | 126,519            | 13,049              |
| <b>Net income (loss)</b>                                     | <b>\$ 40,781</b>         | <b>\$ 115,371</b>  | <b>\$ (135,052)</b> |
| Income (loss) per share—basic:                               |                          |                    |                     |
| Continuing operations  | <b>\$ 0.45</b>           | \$ (0.21)          | \$ (2.96)           |
| Discontinued operations                                      | <b>0.31</b>              | 2.38               | 0.26                |
| <b>Net income (loss)</b>                                     | <b>\$ 0.76</b>           | <b>\$ 2.17</b>     | <b>\$ (2.70)</b>    |
| Income (loss) per share—diluted:                             |                          |                    |                     |
| Continuing operations  | <b>\$ 0.44</b>           | \$ (0.21)          | \$ (2.96)           |
| Discontinued operations                                      | <b>0.31</b>              | 2.38               | 0.26                |
| <b>Net income (loss)</b>                                     | <b>\$ 0.75</b>           | <b>\$ 2.17</b>     | <b>\$ (2.70)</b>    |

(continued)

**Net Sales**

Net sales for 2007 increased \$535.5 million, as compared to 2006. This increase was primarily due to the \$629.9 million of incremental sales generated by the 2007 Acquisitions, with no corresponding amounts in 2006 and the additional sales generated by Rx Label Technology Corporation, which we refer to as Rx, in 2007, since it was not included in our results for a full year in 2006. This increase was offset in part by lower sales from our commercial printing segment of \$51.8 million and lower sales from our envelopes, forms and labels segment of \$33.3 million. See Segment Operations below for a more detailed discussion of the primary factors affecting the change in our net sales by reportable segment.

Net sales decreased \$83.6 million in 2006 as compared to 2005, primarily due to lower sales of \$96.9 million from our commercial printing segment, partially offset by an increase in sales of \$13.3 million from our envelopes, forms and labels segment. See Segment Operations below for a more detailed discussion of the primary factors for our net sales changes.

**Operating Income**

Operating income for 2007 increased \$74.2 million, as compared to 2006. This increase was primarily due to \$49.2 million of incremental operating income generated by the 2007 Acquisitions, with no corresponding amounts in 2006, the additional operating income generated by Rx since it was not included in our results for a full year in 2006 and the \$23.7 million of increased operating income primarily resulting from our cost savings initiatives. See Segment Operations below for a more detailed discussion of the primary factors for the changes in operating income by reportable segment.

Operating income increased \$89.7 million in 2006 as compared to 2005. This increase was primarily due to the positive results of implementing our cost savings programs throughout our business and decreased restructuring and impairment charges of \$36.2 million, partially offset by an increase in corporate expenses of \$12.6 million. See Segment Operations below for a more detailed discussion of the primary factors for the operating income changes for our segments.

**Loss on Sale of Non-Strategic Businesses.** During 2006, we sold three small non-strategic businesses and recognized losses on those sales of \$2.0 million.

**Interest Expense.** Interest expense increased \$30.5 million to \$91.5 million in 2007, as compared to \$61.0 million in 2006, primarily due to the additional debt we incurred to finance the 2007 Acquisitions. This increase was offset in part by lower interest expense resulting from reduced interest rates from amending and refinancing our senior credit facilities in March 2007, and lower interest rates due to market conditions in the fourth quarter of 2007. Interest expense in 2007 reflects average outstanding debt of approximately \$1.2 billion and a weighted average interest rate of 7.5%, as compared to average outstanding debt of \$721.5 million and a weighted average interest rate of 8.1% in 2006. We expect higher interest expense in 2008 due to our increased debt level resulting from the 2007 Acquisitions. See Long-Term Debt below and Note 10 to the consolidated financial statements included in this Annual Report.

Interest expense decreased approximately \$12.8 million to \$61.0 million in 2006 from \$73.8 million in 2005, primarily due to lower average debt balances outstanding. Interest expense during 2006 reflects average outstanding debt of \$721.5 million and a weighted average interest rate of approximately 8.1%, compared to the average outstanding debt of \$820.9 million and a weighted average interest rate of 8.3% during 2005. See Long-Term Debt below and Note 10 to the consolidated financial statements included in this Annual Report.

**Loss on Early Extinguishment of Debt.** In 2007, we: (i) retired the remaining \$10.5 million of our 9½% senior notes due 2012, which we refer to as the 9½% Senior Notes, (ii) executed a tender offer for repayment on March 19, 2007 of \$20.9 million of Cadmus' 8½% senior subordinated notes due 2014, which we refer to as the 8½% Notes and (iii) in connection with the Cadmus acquisition and the refinancing of our existing \$525.0 million senior secured credit facilities, which we refer to as the Credit Facilities, and incurred losses on early extinguishment of debt of \$9.3 million. In June 2006, we incurred a \$32.7 million loss on early extinguishment of debt related to our debt refinancing. See Long-Term Debt below and Note 10 to the consolidated financial statements included in this Annual Report.

**Income Taxes**

| (in thousands)                                      | 2007      | 2006       | 2005     |
|---|-----------|------------|----------|
| Income tax expense (benefit) for U.S. operations    | \$ 11,903 | \$(21,418) | \$41,992 |
| Income tax (benefit) expense for foreign operations | (2,003)   | 280        | 356      |
| Income tax expense (benefit)                        | \$ 9,900  | \$(21,138) | \$42,348 |
| Effective income tax rate                           | 29.2%     | (65.5)%    | 40.0%    |

In 2007, we had income tax expense of \$9.9 million, which primarily relates to taxes on our domestic operations. Our effective tax rate in 2007 was lower than the statutory rate primarily due to release of valuation allowances. See the Critical Accounting Matters section of this MD&A.

In 2006, we had an income tax benefit of \$21.1 million, which included \$0.2 million of taxes on our Canadian operations, \$3.2 million of taxes relating to the deconsolidation of the Company's U.S. income tax group, \$0.4 million of state and local taxes and the recognition of deferred tax assets of \$24.9 million. During 2006, we provided income taxes for our Canadian operations at an effective rate of approximately 34.0%.

In 2005, we had income tax expense of \$42.3 million on the loss from continuing operations before income taxes results primarily from establishing valuation allowances on our net U.S. deferred tax assets and the tax expense recorded for foreign operations that generated taxable income.

**Income from Discontinued Operations, net of taxes.** Income from discontinued operations for 2007 includes the \$17.0 million gain on sale of our remaining interest in the Supremex Income Fund, which we refer to as the Fund, on March 13, 2007, net of taxes of \$8.4 million, and equity income related to our retained interest in the Fund from January 1, 2007 through March 13, 2007. Income from discontinued operations for 2006 primarily represents the revenues and expenses of Supremex, which we sold to the Fund on March 31, 2006, and does not include an allocation of interest expense on our debt. Income from discontinued operations for 2006 includes the gain on the sale of Supremex and certain other assets of \$113.5 million, net of taxes of \$22.5 million and equity income pertaining to our retained interest in the Fund from April 1, 2006 through December 31, 2006. See Notes 4 and 16 to the consolidated financial statements included in this Annual Report.

### **Segment Operations**

Our Chief Executive Officer monitors the performance of the ongoing operations of our two reportable segments. We assess performance based on division net sales and operating income (loss). The summaries of net sales and operating income (loss) of our two segments have been presented to show each segment without the sales of divested operations, as applicable, and to show the operating income (loss) of each reportable segment. See Note 19 to the consolidated financial statements included in this Annual Report.

**Restructuring, Impairment and Other Charges.** In the fourth quarter 2007, we completed our cost savings and restructuring plan initiated in September 2005, including the consolidation of purchasing activities, the rationalization of our manufacturing platform, corporate and field human resources reductions, implementation of company-wide purchasing initiatives and streamlining of information technology infrastructure. In addition, we implemented cost savings and integration initiatives related to the 2007 Acquisitions and anticipate substantially completing the integration of those operations during 2008. See Notes 3 and 12 to the consolidated financial statements included herein. As of December 31, 2007, our total restructuring liability was \$16.8 million.

**2007.** During 2007, we incurred \$40.1 million of restructuring and impairment charges, which included \$10.2 million of employee separation costs, \$12.0 million of asset impairment charges, net, equipment moving expenses of \$3.9 million, a pension withdrawal liability of \$2.1 million, lease termination expenses of \$5.4 million, and building clean-up and other expenses of \$6.5 million. We anticipate lower restructuring and impairment charges in 2008.

**2006.** During 2006, we incurred \$41.1 million of restructuring and impairment charges, which included \$19.9 million of employee separation costs, \$3.6 million of asset impairments, net, equipment moving expenses of \$6.4 million, lease termination costs of \$4.0 million and building clean-up and other expenses of \$7.2 million.

**2005.** During 2005, we incurred \$77.3 million of restructuring, impairment and other charges, which included \$26.4 million for employee separation costs, \$26.3 million for asset impairments, \$5.7 million for lease termination costs and other exit costs of \$2.2 million and \$16.7 million of other charges primarily related to a special meeting of shareholders and the accelerated vesting of equity awards resulting from the change in the makeup of the board of directors.

(continued)

**Envelopes, Forms and Labels**

| (in thousands)                                     | 2007       | 2006      | 2005       |
|--|------------|-----------|------------|
| Segment net sales                                  | \$ 897,722 | \$780,696 | \$ 767,403 |
| Divested operations                                | —          | —         | (8,502)    |
| Division net sales                                 | \$ 897,722 | \$780,696 | \$758,901  |
| Segment operating income                           | \$ 117,342 | \$ 82,753 | \$ 51,830  |
| Operating income margin                            | 13.1%      | 10.6%     | 6.8%       |
| Items included in segment operating income (loss): |            |           |            |
| Restructuring and impairment charges               | \$ 11,350  | \$ 18,336 | \$ 12,540  |
| Operating (loss) from divested operations          | —          | —         | (341)      |

**Division Net Sales**

Division net sales for our envelopes, forms and labels segment increased \$117.0 million, or 15.0%, in 2007, as compared to the same period in 2006. This increase was primarily due to \$150.3 million of incremental sales generated by Commercial Envelope and Printegra in 2007, including the impact of sales changes for work transitioned primarily from a plant closure as a result of the Commercial Envelope acquisition, with no corresponding amounts in 2006 and additional sales generated by Rx, which was not included in our results for a full year in 2006. This increase was offset in part by: (1) lower sales volume of approximately \$21.7 million, primarily from our envelope operations due to the reorganization and closing of operations and the retirement of less efficient assets to maximize profitability, a decline in the overall market due in part to the U.S. Postal Service's rate increases in the middle of the second quarter of 2007, the closure of a forms plant in connection with the integration of Printegra's operations, and an overall decline in the traditional documents business, mainly as a result of customers' improved ability to print high quality documents on their own, offset in part by higher sales volume from the office product retail superstore market due to a shift toward generic products from custom products, and (2) lower pricing and product mix of approximately \$11.6 million, primarily from our envelope operations and the office product retail superstore market due to a shift toward generic products, offset in part by improvement in the product mix from our documents operation to higher value added products.

Division net sales for our envelopes, forms and labels segment increased \$21.8 million, or 2.9%, in 2006 as compared to 2005. This increase was primarily due to \$20.7 million of incremental sales generated by Rx in 2006, with no corresponding amounts in 2005, and increased sales of \$16.8 million from pricing and product mix, primarily from our envelope operations. These increases were offset in part by lower sales volume of approximately \$16.0 million, primarily from our envelope operations due to the reorganization and closing of two operations and the retirement of less efficient assets to maximize profitability, the closure of two forms plants and the overall decline in the traditional documents business, mainly as a result of customers' improved ability to print high quality documents on their own, offset in part by higher sales volume from the office product retail superstore market.

**Segment Operating Income**

Segment operating income for our envelopes, forms and labels segment increased \$34.6 million, or 41.8%, in 2007, as compared to 2006. This increase was primarily due to \$16.1 million of operating income generated by Commercial Envelope and Printegra in 2007, with no corresponding amounts in 2006 and additional operating income generated by Rx since it was not included in our results for a full year in 2006, improved gross margin of \$3.4 million and reduced selling, general and administrative expenses of \$8.1 million from plant consolidations and our cost reduction programs and reduced restructuring and impairment charges of \$7.0 million.

Segment operating income of the envelopes, forms and labels segment increased \$30.9 million, or 59.7%, in 2006 as compared to 2005. This increase was primarily due to improved margins and lower selling, general and administrative expenses. Gross margins improved approximately \$25.5 million, primarily due to increased sales and reduced manufacturing costs. Plant consolidations and other cost reduction programs also contributed to reduce selling, general and administrative expenses by approximately \$10.9 million. These increases were partially offset by increased restructuring and impairment charges of \$5.8 million.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(continued)

**Commercial Printing**

| (in thousands)                                     | 2007        | 2006      | 2005       |
|--|-------------|-----------|------------|
| Segment net sales                                  | \$1,148,994 | \$730,528 | \$ 827,378 |
| Divested operations                                | —           | (9,355)   | (35,271)   |
| Division net sales                                 | \$1,148,994 | \$721,173 | \$792,107  |
| Segment operating income (loss)                    | \$ 55,085   | \$ 13,606 | \$(30,675) |
| Operating income margin                            | 4.8%        | 1.9%      | (3.7)%     |
| Items included in segment operating income (loss): |             |           |            |
| Restructuring and impairment charges               | \$ 28,279   | \$ 21,560 | \$ 36,367  |
| Operating (loss) income from divested operations   | —           | (1,375)   | 686        |

**Division Net Sales**

Division net sales for our commercial printing segment increased \$427.8 million, or 59.3%, in 2007, as compared to 2006. This increase was primarily due to the \$479.6 million of incremental sales generated by ColorGraphics and Cadmus in 2007, including the impact of sales changes for work transitioned primarily from two plants that we closed as a result of the ColorGraphics acquisition, with no corresponding amounts in 2006. This increase was offset by the impact of closed plants in 2007 and 2006 of approximately \$37.8 million and lower sales due to pricing and product mix and lower sales volume, partially offset by paper price increases and foreign currency fluctuations.

Division net sales of the commercial printing segment declined \$70.9 million, or 9.0%, in 2006, as compared to 2005. This decline was due primarily to the loss of \$66.5 million of sales from eight plants that we closed in 2006 and in 2005 and lower sales due to pricing and product mix and lower sales volume, partially offset by paper price increases.

**Segment Operating Income**

Segment operating income for our commercial printing segment increased \$41.5 million, or 304.9%, in 2007, as compared to 2006. This increase was primarily due to: (1) \$33.1 million of operating income generated by ColorGraphics and Cadmus during 2007, with no corresponding amounts in 2006, (2) improved gross margins of approximately \$8.1 million and reduced selling, general and administrative expenses of \$5.9 million from our cost reduction programs at our ongoing operations, and (3) reduced costs of approximately \$1.1 million from plants we closed or divested in 2006. These increases were partially offset by increased restructuring and impairment charges of \$6.7 million.

Segment operating income of the commercial printing segment increased \$44.3 million, or 144.4%, in 2006 as compared to 2005. This increase was primarily due to lower selling, general and administrative expenses of \$17.3 million and improved margins of \$6.0 million from our ongoing printing operations, reduced restructuring and impairment charges of \$14.8 million and net cost savings of \$6.2 million from plants we closed or divested. At our ongoing printing operations, margins improved primarily due to reduced manufacturing costs and from significantly reducing the cost structure of this segment through headcount reductions and lowering expenses.

**Corporate Expenses.** Corporate expenses include the costs of running our corporate headquarters. Corporate expenses in 2007 were fairly consistent with 2006. Corporate expenses were higher in 2006 as compared to 2005, primarily due to certain back-office functions being assumed by the corporate office in Stamford, Connecticut, and from increased compensation expense, including the expense recorded under Statement of Financial Accounting Standards No. 123(R), Share-Based Payment. See Note 13 to the consolidated financial statements included in this Annual Report. We expect that corporate expenses will increase in the first quarter of fiscal 2008 due to the internal review conducted by our audit committee. See Note 2 to the consolidated financial statements included in this Annual Report.

**Liquidity and Capital Resources**

**Net Cash Provided by (Used in) Continuing Operating Activities.** Net cash provided by continuing operating activities was \$86.2 million in 2007, which was primarily due to net income adjusted for non-cash items of \$146.6 million, offset in part by an increase in our working capital of \$50.6 million. The increase in our working capital primarily resulted from an increase in receivables primarily due to the timing of collections and increased sales from our 2007 Acquisitions, lower accrued compensation and related liabilities and the timing of payments for restructuring activity.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

Net cash provided by continuing operating activities was \$14.5 million in 2006, which was primarily due to net income adjusted for non-cash items of \$64.1 million, offset in part by the increase in our working capital of \$47.8 million. The increase in our working capital primarily resulted from the timing of payments to our vendors and interest payments on our debt, increased accounts receivable due to strong December 2006 sales, and lower accrued compensation and other current liabilities primarily resulting from headcount reductions.

**Net Cash Provided by Discontinued Operating Activities.** Represents the net cash provided from the cash dividends of \$2.2 million and \$6.2 million received from the Fund in 2007 and 2006, respectively, and the operations of Supremex through March 31, 2006.

**Net Cash (Used in) Provided by Investing Activities.** Net cash used in investing activities was \$579.5 million in 2007, primarily resulting from the \$627.3 million cost of the 2007 Acquisitions and capital expenditures of \$31.5 million, offset in part by \$73.6 million of cash proceeds from the sale of our remaining interest in the Fund and proceeds from the sale of property, plant and equipment of \$8.9 million.

Net cash provided by investing activities was \$151.6 million in 2006, primarily reflecting cash proceeds from the sale of Supremex of \$211.5 million and from the sale of property, plant and equipment of \$11.5 million, partially offset by the acquisition cost of Rx of \$49.4 million and capital expenditures of \$20.6 million.

**Net Cash Provided by (Used in) Financing Activities.** Net cash provided by financing activities was \$496.2 million in 2007, primarily due to the increased borrowings to finance the acquisition of Cadmus, ColorGraphics and Commercial Envelope and our refinancing, see "Long-Term Debt" below using proceeds from our term loans of \$720.0 million, a \$175.0 million senior unsecured loan and net borrowings under our revolving credit facility of \$75.7 million, offset in part by the repayment of: (i) our term loan B of \$324.2 million, (ii) the Cadmus revolving senior bank credit facility of \$70.1 million, (iii) \$20.9 million of our 8¾% Notes, (iv) \$10.5 million of our 9% Senior Notes, (v) \$4.9 million of term loans, and (vi) \$29.1 million of other long-term debt and \$8.0 million of payments of refinancing fees, redemption premiums and expenses on the extinguishment of debt and \$5.9 million of debt issuance cost payments in connection with our debt refinancing and the issuance of debt.

Net cash used in financing activities was \$165.4 million in 2006, primarily resulting from: (i) the repayment of \$123.9 million of our senior secured credit facility and another credit facility of \$13.1 million with proceeds from the sale of Supremex and certain other assets, (ii) the repayment of \$339.5 million of our 9% Senior Notes and the payment of \$26.1 million of redemption premiums and expenses and \$3.8 million of debt issuance costs in connection with our debt refinancing, which were offset in part by the proceeds from issuance of our term loan B of \$325 million, see "Debt Refinancing" below and (iii) net borrowings under our revolving credit facility of \$15.5 million. Our acquisition of Rx was funded through borrowings under our revolving credit facility.

**Contractual Obligations and Commitments.** The following table details our significant contractual obligations and commitments as of December 31, 2007 (in thousands):

| <b>Payments Due</b> | <b>Long-Term Debt<sup>(1)</sup></b> | <b>Operating Leases</b> | <b>Other Long-Term Obligations<sup>(2)</sup></b> | <b>Purchase Commitments and Other<sup>(3)</sup></b> | <b>Total</b>       |
|---------------------|-------------------------------------|-------------------------|--|---|--------------------|
| 2008                | \$ 127,384                          | \$ 34,944               | \$ 27,320  | \$ 11,156   | \$ 200,804         |
| 2009                | 122,310                             | 27,555                  | 13,964   | —   | 163,829            |
| 2010                | 119,704                             | 21,251                  | 18,546   | —   | 159,501            |
| 2011                | 117,200                             | 16,613                  | 6,341  | —   | 140,154            |
| 2012                | 200,032                             | 12,833                  | 2,510  | —   | 215,375            |
| Thereafter          | 1,390,893                           | 33,514                  | 49,704   | —   | 1,474,111          |
| <b>Total</b>        | <b>\$2,077,523</b>                  | <b>\$146,710</b>        | <b>\$118,385</b>                                 | <b>\$ 11,156</b>                                    | <b>\$2,353,774</b> |

<sup>(1)</sup> Includes estimated interest expense over the term of long-term debt with variable rate debt having an average interest rate of 6.0%.

<sup>(2)</sup> Includes pension and other postretirement benefit obligations, anticipated worker's compensation claims, restructuring liabilities, including interest expense on lease terminations, income tax contingencies and derivative liabilities.

<sup>(3)</sup> Purchase commitments and other consists primarily of payments for equipment.

**Long-Term Debt.** Our total outstanding long-term debt, including current maturities, was approximately \$1.4 billion at December 31, 2007, an increase of \$769.3 million from December 31, 2006. This increase was primarily due to our debt-financed 2007 Acquisitions. As of December 31, 2007, approximately 72% of our outstanding debt was subject to fixed interest rates. See the remainder of this Long-Term Debt section below and Notes 3 and 10 to the consolidated financial statements included in this Annual Report. As of March 14, 2008, we had approximately \$80.5 million available under our revolving credit facility.

#### *Senior Unsecured Loan*

On August 30, 2007, we borrowed \$175.0 million under a new eight-year unsecured term loan facility, which we refer to as the Senior Unsecured Loan, with a group of lenders. Proceeds from the Senior Unsecured Loan along with borrowings from the \$200.0 million six-year revolving credit facility, which we refer to as the Revolving Credit Facility, and available cash were used to fund the acquisition of Commercial Envelope, including retiring certain acquired debt, and to pay certain fees and expenses incurred in connection with the acquisition. The Senior Unsecured Loan has a floating interest rate based on the London Interbank Offered Rate, which we refer to as LIBOR, plus an interest rate margin, which was 4.5% on December 31, 2007 making the interest rate on that date 9.3%. The interest rate margin increases 0.5% quarterly beginning January 2008 up to a maximum interest rate of 11.5%. The Senior Unsecured Loan provides for the conversion by the lenders into senior or senior subordinated exchange notes, which we refer to as the Exchange Notes, similar to the existing indenture relating to our \$320.0 million 7% senior subordinated notes due 2013, which we refer to as the 7% Notes, or a substantially similar indenture. If the Senior Unsecured Loan is converted, the Exchange Notes will bear a fixed rate of interest based on market conditions at the time of conversion. The Senior Unsecured Loan contains covenants, representations, and warranties substantially similar to our existing \$925.0 million senior secured credit facilities, which we refer to as the Amended Credit Facilities, and includes provisions for an underwriting/purchase agreement and a registration rights agreement relating to the resale of the Exchange Notes.

#### *Term Loans*

On July 9, 2007, we increased our then outstanding balance of our seven-year term loan facility due 2013, which we refer to as the Term Loan C, and the delayed-draw term loan facility (collectively with the Term Loan C, which we refer to as the Term Loans), that are part of the Amended Credit Facilities by borrowing an incremental \$100.0 million on the existing financial terms and financial covenants. Proceeds from this borrowing along with available cash were used to fund the acquisition of ColorGraphics, including retiring certain acquired debt, and to pay certain fees and expenses incurred in connection with the acquisition.

**2007 Debt Amendment and Refinancing.** On March 7, 2007, in connection with the Cadmus acquisition, we amended and refinanced our Credit Facilities. The Credit Facilities, established in June 2006 (see 2006 Debt Refinancing below), were comprised of the Revolving Credit Facility, and a \$325.0 million seven-year term loan facility, which we refer to as the Term Loan B. The Credit Facilities were amended by increasing the overall borrowing availability from \$525.0 million to \$925.0 million to create the Amended Credit Facilities, allowing us to: (1) retire the Term Loan B, (2) acquire Cadmus, including retiring and extinguishing the Cadmus revolving senior bank credit facility which had an outstanding balance of \$70.1 million, using the Revolving Credit Facility and a \$600.0 million Term Loan C, and (3) retire any and/or all of the 8% Notes, tendered to us using a \$125.0 million delayed-draw term loan facility. Several of the customary financial covenants within the Amended Credit Facilities, including maximum consolidated leverage ratio and minimum consolidated interest coverage ratio, were modified to provide for the incremental funded debt levels and larger company operations. The Amended Credit Facilities are secured by substantially all of our assets.

**2006 Debt Refinancing.** On June 21, 2006, we entered into a senior secured credit agreement with a syndicate of lenders that became the Credit Facilities. The Credit Facilities consisted of the Revolving Credit Facility and the Term Loan B. The Credit Facilities were amended in March 2007 to become the Amended Credit Facilities, which helped facilitate the purchase of Cadmus. The Credit Facilities contained customary financial covenants, including maintenance of a maximum consolidated leverage ratio and a minimum consolidated interest coverage ratio. Borrowing rates under the Credit Facilities and now the Amended Credit Facilities are determined at our option at the time of each borrowing and are based on LIBOR or the prime rate publicly announced from time to time, in each case plus a specified interest rate margin. The Credit Facilities were secured by substantially all of our assets. We used proceeds from the Credit Facilities and other available cash to fund the tender offer for any and all of our 9% Senior Notes, to retire our then existing senior secured credit facility due 2008 (which had no amounts outstanding).



(continued)

***8½% Notes***

On March 5, 2007, we commenced a cash tender offer and consent solicitation, which we refer to as the Cadmus Tender Offer, for any and all of the outstanding 8½% Notes at total consideration equal to 101.5% of outstanding principal plus any accrued and unpaid interest thereon for 8½% Notes validly tendered and not withdrawn by March 16, 2007. Interest on the 8½% Notes is payable semi-annually on June 15 and December 15 with no required principal payments prior to maturity on June 15, 2014. In connection with the acquisition of Cadmus, we recorded a \$2.8 million increase to the value of the 8½% Notes to record them at their fair value, which fair value increase is being amortized over the life of the 8½% Notes.

On March 19, 2007, we accepted for purchase and paid approximately \$20.9 million for the 8½% Notes tendered in the Cadmus Tender Offer, using \$20.0 million of delayed-draw term loan funding under the Amended Credit Facilities and cash on hand. The merger of Cadmus into Cenveo was a "change of control" of Cadmus under the 8½% Notes indenture. On March 23, 2007 and in connection with the foregoing change of control, we extended the scheduled expiration of the Cadmus Tender Offer until April 18, 2007, modified the offer to purchase each 8½% Note tendered for a price equal to 101.0% of outstanding principal plus any accrued and unpaid interest, and waived certain consent-related conditions, which we refer to as the Change of Control Offer. On April 23, 2007, we settled payment on all 8½% Notes tendered under the Change of Control Offer, and terminated the remaining amount of the delayed-draw term loan facility under the Amended Credit Facilities.

***Supplemental Indentures***

We entered into supplemental indentures, dated March 7, 2007, July 9, 2007, August 30, 2007 and November 7, 2007 to the indenture dated June 15, 2004, among Cadmus, each of the subsidiary guarantors (as defined therein) and U.S. Bank National Association (as successor trustee to Wachovia Bank, National Association), as trustee, pursuant to which the 8½% Notes were issued. These supplemental indentures provide for, among other things, the assumption by us of the obligations of Cadmus under the 8½% Notes and such indenture and the addition of: (1) other U.S. subsidiaries of ours, (2) ColorGraphics and its subsidiary, (3) Commercial Envelope and its subsidiaries and (4) other Canadian subsidiaries of ours as guarantors of the 8½% Notes. Simultaneously, we entered into supplemental indentures, dated March 7, 2007, July 9, 2007 and August 30, 2007, to the indenture dated February 4, 2004 among us, the guarantors named therein and U.S. Bank National Association, as trustee, pursuant to which our 7½% Notes were issued. These supplemental indentures provide for, among other things, the addition of: (1) the U.S. subsidiaries of Cadmus, (2) ColorGraphics and its subsidiary and (3) Commercial Envelope and its subsidiaries as guarantors of the 7½% Notes.

***7½% Notes***

In January 2004, we issued our 7½% Notes, which have semi-annual interest payments due on June 1 and December 1, and no required principal payments prior to maturity on December 1, 2013. We may redeem these notes, in whole or in part, on or after December 1, 2008, at redemption prices from 103.938% to 100%, plus accrued and unpaid interest.

***9½% Senior Notes***

On May 4, 2007, we retired the remaining \$10.5 million of our 9½% Senior Notes for 104.813% of the principal amount plus accrued interest, which was funded with our Revolving Credit Facility.

On June 23, 2006, we completed a tender offer and consent solicitation, which we refer to as the Tender Offer, for any and all of our \$350.0 million 9½% Senior Notes and extinguished approximately \$339.5 million in aggregate principal amount (approximately 97% of the outstanding amount) that were tendered and accepted for purchase under the terms of the Tender Offer.

***Other Debt***

Other debt of approximately \$37.1 million at December 31, 2007, consists primarily of equipment loans assumed in the acquisition of Cadmus, ColorGraphics and Commercial Envelope. Of this debt, \$21.0 million had variable interest rates with an average interest rate of 6.0%, while \$16.1 million had an average fixed interest rate of 5.8%.

***Interest Rate Swaps***

In 2007 and 2006, we entered into interest rate swap agreements to hedge interest rate exposure of \$375.0 million and \$220.0 million, respectively, of our notional floating rate debt. Our hedges of interest rate risk were designated and documented at inception as cash flow hedges and are evaluated for effectiveness at least quarterly. Effectiveness of the hedges is calculated

(continued)

by comparing the fair value of the derivatives to hypothetical derivatives that would be a perfect hedge of floating rate debt. The accounting for gains and losses associated with changes in the fair value of cash flow hedges and the effect on our consolidated financial statements will depend on whether the hedge is highly effective in achieving offsetting changes in fair value of cash flows of the liability hedged. As of December 31, 2007, we do not anticipate reclassifying any ineffectiveness into our results of operations for the next twelve months.

As of December 31, 2007, we were in compliance with all covenants under our debt agreements.

On December 31, 2007, we had outstanding letters of credit of approximately \$24.6 million and a de minimis amount of surety bonds related to performance and payment guarantees. Based on our experience with these arrangements, we do not believe that any obligations that may arise will be significant. We extinguished an outstanding letter of credit of approximately \$0.8 million in connection with the debt we retired on April 2, 2007.

Our current credit ratings are as follows:

| <b>Rating Agency</b> | <b>Corporate Rating</b> | <b>Amended Credit Facilities</b> | <b>7½% Notes</b> | <b>8½% Notes</b> | <b>Last Update</b> |
|----------------------|-------------------------|----------------------------------|------------------|------------------|--------------------|
| Standard & Poor's    | BB-                     | BB+                              | B                | B                | December 2007      |
| Moody's              | B1                      | Ba2                              | B3               | B3               | September 2007     |

On December 4, 2007, Standard & Poor's raised our corporate rating to BB- from B+, the rating on the Amended Credit Facilities to BB+ from BB, and the ratings on our 7½% Notes and 8½% Notes to B from B- citing improvements in profitability, cash flow generation and success in integrating acquisitions and achieving synergies from those acquisitions.

On December 27, 2007, we signed an agreement to acquire 100% of the outstanding stock of Rex Corporation, which we refer to as Rex. Rex is one of the largest independent manufacturers of premium and high-quality packaging solutions and generated annual revenues of approximately \$40.0 million for its most recently completed fiscal year. The transaction is expected to be completed in March 2008 and currently expected to be funded using the Revolving Credit Facility.

The terms of our existing debt do not have any rating triggers that impact our funding. We do not believe that our current ratings will impact our ability to raise additional capital. We expect that internally generated cash flow and the financing available under our Amended Credit Facilities will be sufficient to fund our working capital needs and short-term growth through the end of 2008; however, this cannot be assured.

**Off-Balance Sheet Arrangements.** It is not our business practice to enter into off-balance sheet arrangements. Accordingly, as of December 31, 2007 and 2006, we do not have any off-balance sheet arrangements.

**Guarantees.** In connection with the disposition of certain operations, we have indemnified the purchasers for certain contingencies as of the date of disposition. We have accrued the estimated probable cost of these contingencies.

### **Critical Accounting Matters**

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. We evaluate these estimates and assumptions on an ongoing basis based on historical experience and on various other factors which we believe are reasonable under the circumstances.

We believe that the following represent our more critical estimates and assumptions used in the preparation of our consolidated financial statements:

**Allowance for Losses on Accounts Receivable.** We maintain a valuation allowance based on the expected collectibility of our accounts receivable, which requires a considerable amount of judgment in assessing the current creditworthiness of customers and related aging of past due balances. As of December 31, 2007 and 2006, the allowance provided for potentially uncollectible accounts receivable was \$9.9 million and \$4.8 million, respectively. Charges for bad debts recorded to the statement of operations were \$5.4 million in 2007, \$4.3 million in 2006 and \$3.4 million in 2005. We cannot guarantee that our current credit losses will be consistent with those in the past. These estimates may prove to be inaccurate, in which case we may have overstated or understated the allowance for losses required for uncollectible accounts receivable.

**Provision for Impairment of Long-Lived Assets.** We evaluate long-lived assets, including property, plant and equipment and intangible assets other than goodwill, for impairment whenever events or changes in circumstances indicate that the carrying amounts of specific assets or group of assets may not be recoverable. When an evaluation is required, we estimate the future undiscounted cash flows associated with the specific asset or group of assets. If the cost of the asset or group of assets cannot be recovered by these undiscounted cash flows, we would assess the fair value of the asset or asset group and if necessary, an impairment charge would be recorded. Our estimates of future cash flows are based on our experience and internal business plans. Our internal business plans require judgments regarding future economic conditions, product demand and pricing. During 2007, 2006 and 2005, in connection with our restructuring program, we recorded impairment charges, net on long-lived assets of \$12.0 million, \$3.6 million and \$26.3 million, respectively. See Note 12 to the consolidated financial statements included in this Annual Report. Although we believe our estimates are appropriate, significant differences in the actual performance of an asset or group of assets may materially affect our evaluation of the recoverability of the asset values currently recorded. Additional impairment charges may be necessary in future years.

**Provision for Impairment of Goodwill.** We evaluate the carrying value of our goodwill in the fourth quarter each year and whenever events or circumstances make it more likely than not that an impairment may have occurred. Determining whether an impairment has occurred requires the valuation of each of our reporting units, which we estimate using either discounted cash flows or comparative market multiples. In preparing projected future cash flows, we use our judgment in projecting the profitability of our reporting units, their growth in future years, investment and working capital requirements and the selection of an appropriate discount rate. In our comparisons to market multiples of other similar companies, we use judgment in the selection of the companies included in the analysis. We determined that there was no impairment of our goodwill; however, if our estimates of the valuations of our reporting units prove to be inaccurate, an impairment charge could be necessary in future years.

**Self-Insurance Reserves.** We are self-insured for the majority of our workers' compensation costs and group health insurance costs, subject to specific retention levels. We rely on claims experience and the advice of consulting actuaries and administrators in determining an adequate liability for self-insurance claims. Our self-insurance workers' compensation liability is estimated based on reserves for claims that are established by a third-party administrator. The estimate of these reserves is adjusted from time to time to reflect the estimated future development of the claims. Our liability for workers' compensation claims is the estimated total cost of the claims on a fully-developed and discounted basis that considers anticipated payment patterns. As of December 31, 2007, the undiscounted liability was \$14.2 million and the discounted liability was \$12.2 million using a 4% discount rate. Workers' compensation expense incurred in 2007, 2006 and 2005 was \$4.1 million, \$5.3 million and \$6.0 million, respectively, and were based on actuarial estimates.

Our self-insured healthcare liability represents our estimate of claims that have been incurred but not reported as of December 31, 2007. We rely on claims experience and the advice of consulting actuaries to determine an adequate liability for self-insured plans. This liability was \$5.2 million and \$4.2 million as of December 31, 2007 and 2006, respectively, and was estimated based on an analysis of actuarial completion factors that estimated incurred but unreported liabilities derived from the historical claims experience. Our liability as of December 31, 2007 increased from the prior year, primarily due to the increase in our workforce resulting from the 2007 Acquisitions. The estimate of our liability for employee healthcare represents approximately 45 days of unreported claims.

While we believe that the estimates of our self-insurance liabilities are reasonable, significant differences in our experience or a significant change in any of our assumptions could materially affect the amount of workers' compensation and healthcare expenses we have recorded.

**Accounting for Income Taxes.** We are required to estimate our income taxes in each jurisdiction in which we operate which includes the U.S., Canada and India. This process involves estimating our actual current tax exposure, together with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. The tax effects of these temporary differences are recorded as deferred tax assets or deferred tax liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years for which we have already recorded an expense in our consolidated financial statements. Deferred tax liabilities generally represent tax items that have been deducted for tax purposes, but have not yet been recorded as an expense in our consolidated financial statements. As of December 31, 2007, we had net deferred tax liabilities of \$32.9 million from our U.S. operations. As of December 31, 2007 and 2006, we had foreign net deferred tax liabilities of \$4.3 million and \$4.4 million, respectively.

We assess the recoverability of our deferred tax assets and, to the extent recoverability does not satisfy the "more likely than not" recognition criteria under SFAS 109, record a valuation allowance against the deferred tax assets. We record valuation

allowances to reduce our deferred tax assets to an amount that is more likely than not to be realized. We considered our recent operating results and anticipated future taxable income in assessing the need for our valuation allowance. As a result, in the fourth quarter of 2007, we adjusted our valuation allowance by approximately \$4.6 million to reflect the realization of deferred tax assets. In connection with the acquisitions of Printegra and Commercial Envelope, we released valuation allowance against goodwill in the amounts of \$7.4 million and \$21.5 million, respectively. In connection with the acquisitions of Cadmus and ColorGraphics, we increased our valuation allowance by \$26.6 million and \$0.1 million, respectively. In the fourth quarter of 2007, we released all but \$7.5 million of these valuation allowances against goodwill.

In 2006, we decreased our valuation allowance by approximately \$58.1 million, primarily as a result of utilizing our net operating loss carryforwards principally against the gain on sale of Supremex, which is reflected in discontinued operations. As of December 31, 2006, the total valuation allowance on our net U.S. deferred tax assets was \$55.7 million.

During 2005, we increased our valuation allowance by \$87.1 million as a result of continuing operating losses from our U.S. operations.

The remaining portion of our valuation allowance will be maintained until there is sufficient positive evidence to conclude that it is more likely than not that our remaining deferred tax assets will be realized. When sufficient positive evidence occurs, our income tax expense will be reduced to the extent we decrease the amount of our valuation allowance. The increase or reversal of all or a portion of our tax valuation allowance could have a significant negative or positive impact on future earnings. Any reversal of the valuation allowance related to stock-based compensation will be reflected as a component of shareholders' equity and will not affect the future effective income tax rate.

#### **New Accounting Pronouncements**

We are required to adopt certain new accounting pronouncements. See Note 1 to the consolidated financial statements included in this Annual Report.

#### **Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risks such as changes in interest and foreign currency exchange rates, which may adversely affect results of operations and financial position. Risks from interest rate fluctuations and changes in foreign currency exchange rates are managed through normal operating and financing activities. We do not utilize derivatives for speculative purposes.

Exposure to market risk from changes in interest rates relates primarily to our variable rate debt obligations. The interest on this debt is LIBOR plus a margin. At December 31, 2007, we had variable rate debt outstanding of \$407.3 million, after considering our interest rate swaps. A 1% increase in LIBOR on debt outstanding subject to variable interest rates would increase our annual interest expense by approximately \$4.1 million.

We have foreign operations, primarily in Canada, and thus are exposed to market risk for changes in foreign currency exchange rates. For the year ended December 31, 2007, a uniform 10% strengthening of the U.S. dollar relative to the local currency of our foreign operations would have resulted in a decrease in sales and operating income of approximately \$8.5 million and \$0.6 million, respectively. The effects of foreign currency exchange rates on future results would also be impacted by changes in sales levels or local currency prices.

**To the Board of Directors and Stockholders of Cenveo, Inc.  
Stamford, Connecticut:**

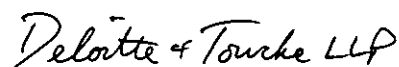
We have audited the accompanying consolidated balance sheet of Cenveo, Inc. and subsidiaries (the "Company") as of December 31, 2007, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit. The consolidated financial statements of the Company for the years ended December 31, 2006 and 2005 were audited by other auditors whose report is dated February 28, 2007 (March 28, 2008 as to the effects of the restatement discussed in Note 2).

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such 2007 consolidated financial statements present fairly, in all material respects, the financial position of Cenveo, Inc. and subsidiaries as of December 31, 2007, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 28, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.



DELOITTE & TOUCHE LLP  
Stamford, Connecticut  
March 28, 2008

**The Board of Directors and Shareholders of Cenveo, Inc.**

We have audited the accompanying consolidated balance sheet of Cenveo, Inc. and subsidiaries as of December 31, 2006, and the related consolidated statements of operations, changes in shareholders' equity (deficit) and cash flows for each of the two years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cenveo, Inc. and subsidiaries at December 31, 2006, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1, 13 and 14 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statements of Financial Accounting Standards No. 123(R), "Share-Based Payment", and No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)."

As discussed in Note 2, the consolidated financial statements at and for the year ended December 31, 2006 have been restated.

*Ernst & Young LLP*

ERNST & YOUNG LLP  
Stamford, Connecticut  
February 28, 2007,  
except for Note 2, as to which the date is  
March 28, 2008

# CONSOLIDATED BALANCE SHEETS

|  | December 31, |                     |
|--|--------------|---------------------|
|  | 2007         | As Restated<br>2006 |
| (in thousands, except par values)  |              |                     |
| <b>Assets</b>  |              |                     |
| Current assets:  |              |                     |
| Cash and cash equivalents  | \$ 15,882    | \$ 10,558           |
| Accounts receivable, net   | 344,634      | 228,912             |
| Inventories  | 162,908      | 91,534              |
| Assets held for sale   | —            | 51,966              |
| Prepaid and other current assets   | 73,358       | 41,413              |
| Total current assets   | 596,782      | 424,383             |
| Property, plant and equipment, net   | 428,341      | 251,103             |
| Goodwill   | 669,802      | 258,136             |
| Other intangible assets, net   | 270,622      | 31,985              |
| Other assets, net  | 37,175       | 34,285              |
| Total assets   | \$2,002,722  | \$999,892           |
| <b>Liabilities and Shareholders' Equity</b>  |              |                     |
| Current liabilities:   |              |                     |
| Current maturities of long-term debt   | \$ 18,752    | \$ 7,513            |
| Accounts Payable   | 165,458      | 116,180             |
| Accrued compensation and related liabilities   | 47,153       | 40,242              |
| Other current liabilities  | 79,554       | 63,812              |
| Total current liabilities  | 310,917      | 227,747             |
| Long-term debt   | 1,425,885    | 667,782             |
| Deferred income taxes  | 55,181       | 4,356               |
| Other liabilities  | 111,413      | 41,550              |
| Commitments and contingencies  |              |                     |
| Shareholders' equity:  |              |                     |
| Preferred stock, \$0.01 par value; 25 shares authorized,<br>none issued  | —            | —                   |
| Common stock, \$0.01 par value; 100,000 shares<br>authorized, 53,700 and 53,515 shares issued and<br>outstanding as of December 31, 2007 and 2006,<br>respectively | 537          | 535                 |
| Paid-in capital  | 254,241      | 244,894             |
| Retained deficit   | (148,939)    | (189,720)           |
| Accumulated other comprehensive (loss) income  | (6,513)      | 2,748               |
| Total shareholders' equity   | 99,326       | 58,457              |
| Total liabilities and shareholders' equity   | \$2,002,722  | \$999,892           |

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF OPERATIONS

|  | Years Ended December 31, |                   |                     |
|--|--------------------------|-------------------|---------------------|
|  |                          | As Restated       |                     |
| (in thousands, except per share data)                        | 2007                     | 2006              | 2005                |
| Net sales  | <b>\$2,046,716</b>       | \$1,511,224       | \$1,594,781         |
| Cost of sales  | <b>1,628,706</b>         | 1,211,784         | 1,319,950           |
| Selling, general and administrative                          | <b>229,961</b>           | 189,476           | 218,740             |
| Amortization of intangible assets                            | <b>10,413</b>            | 5,473             | 5,147               |
| Restructuring, impairment and other charges                  | <b>40,086</b>            | 41,096            | 77,254              |
| Operating income (loss)                                      | <b>137,550</b>           | 63,395            | (26,310)            |
| (Gain) loss on sale of non-strategic businesses              | <b>(189)</b>             | 2,035             | 4,479               |
| Interest expense, net  | <b>91,467</b>            | 60,980            | 73,821              |
| Loss on early extinguishment of debt                         | <b>9,256</b>             | 32,744            | —                   |
| Other expense (income), net                                  | <b>3,131</b>             | (78)              | 1,143               |
| Income (loss) from continuing operations before income taxes | <b>33,885</b>            | (32,286)          | (105,753)           |
| Income tax expense (benefit)                                 | <b>9,900</b>             | (21,138)          | 42,348              |
| Income (loss) from continuing operations                     | <b>23,985</b>            | (11,148)          | (148,101)           |
| Income from discontinued operations, net of taxes            | <b>16,796</b>            | 126,519           | 13,049              |
| Net income (loss)  | <b>\$ 40,781</b>         | <b>\$ 115,371</b> | <b>\$ (135,052)</b> |
| Income (loss) per share—basic:                               |                          |                   |                     |
| Continuing operations  | <b>\$ 0.45</b>           | <b>\$ (0.21)</b>  | <b>\$ (2.96)</b>    |
| Discontinued operations                                      | <b>0.31</b>              | 2.38              | 0.26                |
| Net income (loss)  | <b>\$ 0.76</b>           | <b>\$ 2.17</b>    | <b>\$ (2.70)</b>    |
| Income (loss) per share—diluted:                             |                          |                   |                     |
| Continuing operations  | <b>\$ 0.44</b>           | <b>\$ (0.21)</b>  | <b>\$ (2.96)</b>    |
| Discontinued operations                                      | <b>0.31</b>              | 2.38              | 0.26                |
| Net income (loss)  | <b>\$ 0.75</b>           | <b>\$ 2.17</b>    | <b>\$ (2.70)</b>    |
| Weighted average shares:                                     |                          |                   |                     |
| Basic  | <b>53,584</b>            | 53,288            | 50,038              |
| Diluted  | <b>54,645</b>            | 53,288            | 50,038              |

See notes to consolidated financial statements.



# CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

| (in thousands)   | 2007      | As Restated<br>2006 | 2005        |
|--|-----------|---------------------|-------------|
| Cash flows from operating activities:  |           |                     |             |
| Net income (loss)  | \$ 40,781 | \$115,371           | \$(135,052) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |           |                     |             |
| Gain on sale of discontinued operations, net of taxes  | (17,007)  | (113,477)           | —           |
| Loss (income) from discontinued operations, net of taxes   | 211       | (13,042)            | (13,049)    |
| Depreciation   | 55,095    | 35,220              | 43,101      |
| Amortization of other intangible assets  | 10,413    | 5,473               | 5,147       |
| Non-cash interest expense, net   | 1,410     | 1,728               | 3,603       |
| Deferred income taxes  | 8,763     | (24,842)            | 35,665      |
| Non-cash restructuring, impairment and other charges, net  | 19,729    | 10,346              | 32,010      |
| Loss on early extinguishment of debt   | 9,256     | 32,744              | —           |
| (Gain) loss on sale of non-strategic businesses  | (189)     | 2,035               | 4,479       |
| Provisions for bad debts   | 5,363     | 4,345               | 3,427       |
| Provisions for inventory obsolescence  | 2,851     | 1,900               | 2,936       |
| Stock-based compensation provision   | 10,280    | 5,954               | 2,505       |
| (Gain) loss on disposal of assets  | (369)     | 379                 | (555)       |
| Changes in operating assets and liabilities, excluding the effects of acquired businesses:         |           |                     |             |
| Accounts receivable  | (6,086)   | (5,322)             | 341         |
| Inventories  | 1,193     | 3,084               | (139)       |
| Accounts payable and accrued compensation and related liabilities                                  | (9,101)   | (15,792)            | (59,386)    |
| Other working capital changes  | (36,580)  | (29,802)            | 8,652       |
| Other, net   | (9,805)   | (1,778)             | 2,312       |
| Net cash provided by (used in) continuing operating activities                                     | 86,208    | 14,524              | (64,003)    |
| Net cash provided by discontinued operating activities   | 2,198     | 8,832               | 25,330      |
| Net cash provided by (used in) operating activities  | 88,406    | 23,356              | (38,673)    |
| Cash flows from investing activities:  |           |                     |             |
| Cost of business acquisitions, net of cash acquired  | (627,304) | (49,425)            | (3,552)     |
| Capital expenditures   | (31,538)  | (19,930)            | (28,154)    |
| Acquisition payments   | (3,653)   | (4,653)             | (4,053)     |
| Proceeds from sale of property, plant and equipment  | 8,949     | 11,475              | 3,796       |
| Proceeds from divestitures, net  | 431       | 3,189               | 8,377       |
| Net cash used in investing activities of continuing operations                                     | (653,115) | (59,344)            | (23,586)    |
| Proceeds from the sale of discontinued operations  | 73,628    | 211,529             | —           |
| Proceeds from the sale of property, plant and equipment of discontinued operations                 | —         | —                   | 211         |
| Capital expenditures for discontinued operations   | —         | (632)               | (2,603)     |
| Net cash provided by (used in) investing activities of discontinued operations                     | 73,628    | 210,897             | (2,392)     |
| Net cash (used in) provided by investing activities  | (579,487) | 151,553             | (25,978)    |
| Cash flows from financing activities:  |           |                     |             |
| Proceeds from issuance of Term Loans   | 720,000   | 325,000             | —           |
| Proceeds from Unsecured Loan   | 175,000   | —                   | —           |
| Borrowings under Revolving Credit Facility, net  | 75,700    | 15,500              | —           |
| Proceeds from exercise of stock options  | 304       | 1,956               | 22,433      |
| Proceeds from excess tax benefit from stock based compensation                                     | 67        | 1,168               | —           |
| Repayment of Term Loan B   | (324,188) | —                   | —           |
| Repayment of Cadmus revolving senior bank credit facility  | (70,100)  | —                   | —           |
| Repayments of other long-term debt   | (29,053)  | (13,095)            | (3,123)     |
| Repayment of 8% Senior Subordinated Notes  | (20,880)  | —                   | —           |
| Repayment of 9% Senior Notes   | (10,498)  | (339,502)           | —           |
| Repayments of Term Loans   | (4,900)   | (813)               | —           |
| (Repayments) borrowings under senior secured revolving credit facility, net                        | —         | (123,931)           | 45,490      |
| Payment of refinancing fees, redemption, premiums and expenses                                     | (8,045)   | (26,142)            | —           |
| Payment of debt issuance costs   | (5,906)   | (3,770)             | —           |
| Purchase and retirement of common stock upon vesting of RSUs                                       | (1,302)   | (1,786)             | (187)       |
| Net cash provided by (used in) financing activities  | 496,199   | (165,415)           | 64,613      |
| Effect of exchange rate changes on cash and cash equivalents of continuing operations              | 206       | 14                  | 107         |
| Effect of exchange rate changes on cash and cash equivalents of discontinued operations            | —         | 15                  | 170         |
| Net increase in cash and cash equivalents  | 5,324     | 9,523               | 239         |
| Cash and cash equivalents at beginning of year   | 10,558    | 1,035               | 796         |
| Cash and cash equivalents at end of year   | \$ 15,882 | \$ 10,558           | \$ 1,035    |

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)**

|  | Common       | Paid-In          | Retained           | Deferred     | Accumulated<br>Other<br>Comprehensive | Total<br>Shareholders' |
|--|--------------|------------------|--------------------|--------------|---------------------------------------|------------------------|
| (in thousands)   | Stock        | Capital          | (Deficit)          | Compensation | Income (Loss)                         | Equity<br>(Deficit)    |
| Balance at December 31, 2004   | \$487        | \$214,902        | \$(170,039)        | \$(2,003)    | \$14,007                              | \$57,354               |
| Comprehensive income (loss):   |              |                  |                    |              |                                       |                        |
| Net loss   |              |                  | (135,052)          |              |                                       | (135,052)              |
| Other comprehensive income (loss):   |              |                  |                    |              |                                       |                        |
| Pension liability adjustment,<br>net of tax benefit of \$743                   |              |                  |                    |              | (1,187)                               | (1,187)                |
| Currency translation adjustment  |              |                  |                    |              | 4,584                                 | 4,584                  |
| Other comprehensive income   |              |                  |                    |              |                                       | 3,397                  |
| Total comprehensive loss   |              |                  |                    |              |                                       | (131,655)              |
| Cancellation of restricted shares  | (4)          | (1,993)          |                    | 795          |                                       | (1,202)                |
| Issuance of restricted shares  | 5            | 4,030            |                    | (4,035)      |                                       | —                      |
| Exercise of stock options  | 42           | 22,391           |                    |              |                                       | 22,433                 |
| Purchase and retirement of common stock  |              | (187)            |                    |              |                                       | (187)                  |
| Amortization of deferred compensation<br>and restricted stock units            |              | 289              |                    | 3,418        |                                       | 3,707                  |
| Balance at December 31, 2005   | 530          | 239,432          | (305,091)          | (1,825)      | 17,404                                | (49,550)               |
| Comprehensive income (loss) As Restated:                                       |              |                  |                    |              |                                       |                        |
| Net income As Restated   |              |                  | 115,371            |              |                                       | 115,371                |
| Other comprehensive income (loss):   |              |                  |                    |              |                                       |                        |
| Pension liability adjustment, net of<br>tax expense of \$429                   |              |                  |                    |              | 6,326                                 | 6,326                  |
| Unrealized loss on cash flow hedges  |              |                  |                    |              | (2,992)                               | (2,992)                |
| Currency translation adjustment  |              |                  |                    |              | (3,603)                               | (3,603)                |
| Reclassifications to earnings on sale<br>of discontinued operations:           |              |                  |                    |              |                                       |                        |
| Currency translation adjustment  |              |                  |                    |              | (14,387)                              | (14,387)               |
| Other comprehensive loss   |              |                  |                    |              |                                       | (14,656)               |
| Total comprehensive income<br>As Restated                                      |              |                  |                    |              |                                       | 100,715                |
| Reversal of unamortized deferred<br>compensation on adoption of<br>SFAS 123(R) |              | (1,825)          |                    | 1,825        |                                       | —                      |
| Exercise of stock options  | 5            | 1,951            |                    |              |                                       | 1,956                  |
| Purchase and retirement of common stock<br>upon vesting of RSUs                |              | (1,786)          |                    |              |                                       | (1,786)                |
| Amortization of stock based compensation                                       |              | 5,954            |                    |              |                                       | 5,954                  |
| Excess tax benefit from stock based<br>compensation                            |              | 1,168            |                    |              |                                       | 1,168                  |
| Balance at December 31, 2006   |              |                  |                    |              |                                       |                        |
| As Restated  | 535          | 244,894          | (189,720)          | —            | 2,748                                 | 58,457                 |
| <b>Comprehensive income (loss):</b>  |              |                  |                    |              |                                       |                        |
| <b>Net income</b>  |              |                  | <b>40,781</b>      |              |                                       | <b>40,781</b>          |
| <b>Other comprehensive income (loss):</b>                                      |              |                  |                    |              |                                       |                        |
| Pension liability adjustment,<br>net of tax expense of \$145                   |              |                  |                    |              | (2,131)                               | (2,131)                |
| Unrealized loss on cash flow hedges,<br>net of tax benefit of \$4,985          |              |                  |                    |              | (7,780)                               | (7,780)                |
| Currency translation adjustment  |              |                  |                    |              | 6,151                                 | 6,151                  |
| Reclassifications to earnings on sale<br>of discontinued operations:           |              |                  |                    |              |                                       |                        |
| Currency translation adjustment  |              |                  |                    |              | (5,501)                               | (5,501)                |
| Other comprehensive loss   |              |                  |                    |              |                                       | (9,261)                |
| Total comprehensive income   |              |                  |                    |              |                                       | 31,520                 |
| Exercise of stock options  |              | 304              |                    |              |                                       | 304                    |
| Purchase and retirement of common stock<br>upon vesting of RSUs                | 2            | (1,304)          |                    |              |                                       | (1,302)                |
| Amortization of stock based compensation                                       |              | 10,280           |                    |              |                                       | 10,280                 |
| Excess tax benefit from stock based<br>compensation                            |              | 67               |                    |              |                                       | 67                     |
| <b>Balance at December 31, 2007</b>  | <b>\$537</b> | <b>\$254,241</b> | <b>\$(148,939)</b> | <b>\$ —</b>  | <b>\$(6,513)</b>                      | <b>\$99,326</b>        |

See notes to consolidated financial statements.

**1. Summary of Significant Accounting Policies**

**Basis of Presentation.** Cenveo, Inc. and subsidiaries (collectively, the "Company" or "Cenveo") are engaged in the printing and manufacturing of envelopes, business forms and labels and commercial printing. The Company is headquartered in Stamford, Connecticut, is organized under Colorado law, and its common stock is traded on the New York Stock Exchange under the symbol "CVO".

The Company's reporting periods for 2007, 2006 and 2005 in this report consist of 52 week periods, ending on the Saturday closest to the last day of the calendar month and ended on December 29, 2007, December 30, 2006 and December 31, 2005, respectively. The accompanying consolidated financial statements are presented as ending on December 31, since the effect of reporting periods not ending on that date are not material.

The consolidated financial statements include the accounts of Cenveo, Inc. and its wholly-owned subsidiaries. All intercompany transactions have been eliminated. The Company acquired PC Ink Corp. ("Printegra") and Cadmus Communications Corporation ("Cadmus") in the first quarter of 2007 and Madison/Graham ColorGraphics, Inc. ("ColorGraphics") and Commercial Envelope Manufacturing Co. Inc. ("Commercial Envelope") in the third quarter of 2007 (collectively the "2007 Acquisitions") (Notes 3, 8, 10, 12, 14 and 19). The Company's results for the year ended December 31, 2007 include the operating results of the 2007 Acquisitions subsequent to their respective acquisition dates, except for ColorGraphics, which is included in our operating results from July 1, 2007.

**Use of Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates and assumptions are used for, but not limited to, establishing the allowance for doubtful accounts, inventory obsolescence, purchase price allocation, depreciation and amortization lives, asset impairment evaluations, tax assets and liabilities, self-insurance accruals, stock-based compensation and other contingencies. Actual results could differ from estimates.

**Cash and Cash Equivalents.** Cash and cash equivalents include cash on deposit and highly liquid investments with original maturities of three months or less. Cash and cash equivalents are stated at cost, which approximates fair value.

**Accounts Receivable.** Accounts receivable are recorded at invoiced amounts. As of December 31, 2007 and 2006, accounts receivable were reduced by an allowance for doubtful accounts of \$9.9 million and \$4.8 million, respectively.

**Inventories.** Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out or average cost basis. Cost includes materials, labor and overhead related to the purchase and production of inventories. As of December 31, 2007 and 2006, inventory was reduced by an allowance for obsolescence of \$7.5 million and \$4.9 million, respectively.

**Property, Plant and Equipment.** Property, plant and equipment are stated at cost. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations. Expenditures for repairs and maintenance are charged to expense as incurred, and expenditures that increase the capacity, efficiency or useful lives of existing assets are capitalized.

Depreciation is provided using the straight-line method based on the estimated useful lives of 15 to 45 years for buildings and building improvements, 10 to 15 years for machinery and equipment and three to 10 years for furniture and fixtures.

**Computer Software.** The Company develops and purchases software for internal use. Software development costs incurred during the application development stage are capitalized. Once the software has been installed and tested and is ready for use, additional costs incurred in connection with the software are expensed as incurred. Capitalized computer software costs are amortized over the estimated useful life of the software, usually between three and seven years. Net computer software costs included in property, plant and equipment were \$7.0 million and \$7.9 million as of December 31, 2007 and 2006, respectively.

**Debt Issuance Costs.** Direct expenses such as legal, accounting and underwriting fees incurred to issue or extend debt, are included in other assets, net in the consolidated balance sheets. Debt issuance costs were \$11.6 million and \$8.4 million as of December 31, 2007 and 2006, respectively, net of accumulated amortization, and are amortized over the term of the related debt to interest expense. In connection with the acquisition of Cadmus and the Company's debt refinancing, the Company wrote off \$1.7 million of debt issuance costs associated with the debt retired. In connection with the acquisition of Cadmus, ColorGraphics and Commercial Envelope in 2007, the Company capitalized \$6.4 million of costs related to the new debt. In June 2006, the Company refinanced certain of its long-term debt and wrote off approximately \$6.6 million of debt issuance costs associated with the debt retired and capitalized \$3.8 million of costs related to the Company's debt (Note 10). Interest expense includes the amortization of debt issuance costs of \$1.5 million, \$1.7 million and \$3.6 million in 2007, 2006 and 2005, respectively.

**Goodwill and Other Intangible Assets.** Goodwill represents the excess of acquisition costs over the fair value of net assets of businesses acquired. Goodwill is reviewed annually in the fourth quarter to determine if there is an impairment, or more frequently if an indication of possible impairment exists. No impairment charges for goodwill or other intangible assets were recorded in 2007, 2006 or 2005.

Other intangible assets primarily arise from the purchase price allocations of businesses acquired and are based on appraisals or internal estimates. Intangible assets with determinable lives are amortized on a straight-line basis over the estimated useful life assigned to these assets. Intangible assets that are expected to generate cash flows indefinitely are not amortized, but are evaluated for impairment similar to goodwill.

**Long-Lived Assets.** Long-lived assets, including property, plant and equipment, and intangible assets with determinable lives, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be fully recoverable. An impairment is assessed if the undiscounted expected future cash flows derived from an asset are less than its carrying amount. Impairment losses are recognized for the amount by which the carrying value of an asset exceeds its fair value. The estimated useful lives of all long-lived assets are periodically reviewed and revised if necessary.

**Self-Insurance.** The Company is self-insured for the majority of its workers' compensation costs and group health insurance costs, subject to specific retention levels. The Company records its liability for workers' compensation claims on a fully-developed basis. The Company's liability for health insurance claims includes an estimate for claims incurred but not reported. As of December 31, 2007, the undiscounted worker's compensation liability was \$14.2 million and the discounted liability was \$12.2 million using a 4% discount rate.

**Financial Instruments.** The Company uses derivative financial instruments to hedge exposures to interest rate fluctuations by balancing its exposure to fixed and variable interest rates. The implied gains and losses associated with interest rate swaps offset changes in interest rates. All derivatives are recorded as other assets or other liabilities in the consolidated balance sheets at their respective fair values with unrealized gains and losses recorded in accumulated other comprehensive (loss) income, net of applicable income taxes. At inception of a hedge transaction, the Company formally documents the hedge relationship and the risk management objective for undertaking the hedge. In addition, the Company assesses, both at inception of the hedge and on an ongoing basis, whether the derivative in the hedging transaction has been highly effective in offsetting changes in fair value or cash flows of the hedged item and whether the derivative is expected to continue to be highly effective. The impact of ineffectiveness, if any, is recognized in results of operations.

**Revenue Recognition.** The Company recognizes revenue when persuasive evidence of an arrangement exists, product delivery has occurred or services have been rendered, and pricing is fixed or determinable, and collection is reasonably assured.

Since a significant portion of the Company's products are customer specific, it is common for customers to inspect the quality of the product at the Company's facility prior to its shipment. Products shipped are not subject to contractual right of return provisions.

The Company has rebate agreements with certain customers. These rebates are recorded as reductions of sales and are accrued using sales data and rebate percentages specific to each customer agreement. Accrued customer rebates are included in other current liabilities in the consolidated balance sheets (Note 9).

**Freight Costs.** The costs of delivering finished goods to customers are recorded as freight costs and included in cost of sales. Freight costs that are included in the price of the product are included in net sales.

**Advertising Costs.** All advertising costs are expensed as incurred. Advertising costs were \$2.6 million, \$2.6 million and \$4.0 million in 2007, 2006 and 2005, respectively.

**Foreign Currency Translation.** Assets and liabilities of subsidiaries operating outside the United States with a functional currency other than the U.S. dollar are translated at year-end exchange rates. The effects of translation are included as a component of accumulated other comprehensive income in shareholders' equity in the consolidated balance sheet. Income and expense items and gains and losses are translated at the average monthly rate. Foreign currency transaction gains and losses are recorded in other expense (income), net.

**Stock-Based Compensation.** The Company accounts for stock-based compensation in accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standard No. 123 (revised 2004), Share-Based Payment ("SFAS 123(R)") (Note 13).

**Income Taxes.** Deferred income taxes reflect the future tax effect of temporary differences between the carrying amount of assets and liabilities for financial and income tax reporting and are measured by applying statutory tax rates in effect for the year

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

during which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent it is more likely than not that the deferred tax assets will not be realized (Note 11).

**New Accounting Pronouncements.** Effective January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109) ("FIN 48") (Note 11).

Effective January 1, 2007, the Company adopted Emerging Issues Task Force Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities should be Presented in the Income Statement - That is, Gross versus Net Presentation ("EITF 06-3"). The task force concluded that either method is acceptable; however, if taxes are reported on a gross basis (included in sales) a company should disclose those amounts, if significant. The Company records sales net of applicable sales tax. The adoption of EITF 06-3 did not have a significant effect on the Company's consolidated statements of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, Fair Value Measurements ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in U.S. GAAP, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and is effective for the Company on January 1, 2008. The adoption of SFAS 157 on January 1, 2008, is not expected to have a material impact on the Company's consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position FAS 157-1, "Application of SFAS No. 157 to SFAS No. 13 and Its Related Interpretative Accounting Pronouncements that Address Leasing Transactions" ("FSP FAS 157-1") and FASB Staff Position FAS 157-2, "Effective Date of SFAS No. 157" ("FSP FAS 157-2"). FSP FAS 157-1 excludes SFAS No. 13 and its related interpretive accounting pronouncements that address leasing transactions, with the exception of fair value measurements of assets and liabilities recorded as a result of a lease transaction but measured pursuant to other pronouncements within the scope of SFAS No. 157. FSP FAS 157-2 delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP FAS 157-1 and FSP FAS 157-2 became effective for the Company upon adoption of SFAS No. 157 on January 1, 2008.

In February 2007, the FASB issued SFAS No. 159, Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115 ("SFAS 159"), which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for the Company on January 1, 2008. The Company did not elect the fair value option for existing eligible items; therefore, SFAS 159 had no impact on the Company's consolidated financial statements at January 1, 2008.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations ("SFAS 141R"). SFAS 141R establishes revised principles and requirements for how the Company will recognize and measure assets and liabilities acquired in a business combination. SFAS 141R is effective for business combinations completed on or after January 1, 2009 for the Company. The Company will adopt SFAS 141R on January 1, 2009, as required, and is currently evaluating the impact of such adoption on its financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for the noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective on January 1, 2009 for the Company. The Company is currently evaluating the impact of adopting SFAS 160.

### 2. Restatement

During the fourth quarter of 2007, senior management became aware of unsupported accounting entries that were recorded by a plant controller who had responsibility for two of the Company's envelope plants. As a result, the Company's audit committee initiated an internal review conducted by outside counsel under the direction of the audit committee. The review concluded that the accounting irregularities were isolated to those two envelope plants and were committed by that sole former employee. The accounting irregularities included the recording of unsupported journal entries to enhance the plants financial results through a reduction of cost of goods sold and increases to accounts receivable and inventories and decreases to accounts payable and other current liabilities. As a result, the Company recorded adjustments to restate its historical consolidated financial statements for the year ending December 31, 2006 and interim periods in 2007, which decreased operating income in 2006 by approximately \$2.3 million and approximately \$4.4 million in the first nine months of 2007. As part of this restatement, the Company also recorded an adjustment to reclassify income tax benefits amounting to approximately \$13.9 million from discontinued operations to continuing operations as required by paragraph 140 of SFAS No. 109, Accounting for Income Taxes ("SFAS 109") and made

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

adjustments for other immaterial errors in its historical consolidated financial statements as of and for the year ended December 31, 2006. See Note 21 for details of the effect on the Company's interim financial statements.

The following tables summarize the effects of the restatement on the line items included in the balance sheets and statements of operations and cash flows as of and for the year ended December 31, 2006.

## Consolidated balance sheet line items

| (in thousands)                             | December 31, 2006 |             |
|--|-------------------|-------------|
|  | As Reported       | As Restated |
| Accounts receivable, net                   | \$ 230,098        | \$ 228,912  |
| Inventories                                | 92,406            | 91,534      |
| Total current assets                       | 426,441           | 424,383     |
| Total assets                               | \$1,001,950       | \$ 999,892  |
| Accounts payable                           | \$ 116,067        | \$ 116,180  |
| Other current liabilities                  | 63,609            | 63,812      |
| Total current liabilities                  | 227,431           | 227,747     |
| Other liabilities                          | 40,640            | 41,550      |
| Retained deficit                           | (186,436)         | (189,720)   |
| Total shareholders' equity                 | 61,741            | 58,457      |
| Total liabilities and shareholders' equity | \$1,001,950       | \$ 999,892  |

## Consolidated statement of operations line items

| (in thousands, except per share data)             | Year Ended<br>December 31, 2006 |             |
|---|---------------------------------|-------------|
|   | As Reported                     | As Restated |
| Cost of sales                                     | \$1,208,500                     | \$1,211,784 |
| Operating income                                  | 66,679                          | 63,395      |
| Loss from continuing operations before taxes      | (29,002)                        | (32,286)    |
| Income tax benefit                                | (7,177)                         | (21,138)    |
| Loss from continuing operations                   | (21,825)                        | (11,148)    |
| Income from discontinued operations, net of taxes | 140,480                         | 126,519     |
| Net income  | \$ 118,655                      | \$ 115,371  |
| Income (loss) per share – basic and diluted:      |                                 |             |
| Continuing operations                             | \$ (0.41)                       | \$ (0.21)   |
| Discontinued operations                           | 2.64                            | 2.38        |
| Net income  | \$ 2.23                         | \$ 2.17     |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## Consolidated statement of cash flows line items

| (in thousands)  | Year Ended<br>December 31, 2006 |             |
|---|---------------------------------|-------------|
|   | As Reported                     | As Restated |
| Net income  | \$ 118,655                      | \$ 115,371  |
| Gain on sale of discontinued operations, net of taxes             | (127,438)                       | (113,477)   |
| Deferred income taxes   | (10,881)                        | (24,842)    |
| Accounts receivable   | (6,508)                         | (5,322)     |
| Inventories   | 2,212                           | 3,084       |
| Accounts payable and accrued compensation and related liabilities | (15,905)                        | (15,792)    |
| Other working capital changes                                     | (23,790)                        | (29,802)    |
| Other, net  | (2,688)                         | (1,778)     |
| Net cash provided by continuing operating activities              | 20,739                          | 14,524      |
| Net cash provided by discontinued operating activities            | 2,617                           | 8,832       |

## 3. Acquisitions

Acquisitions are accounted for under the purchase method of accounting. Accordingly, the assets and liabilities of the acquired businesses have been recorded at estimated fair value at the date acquired with the excess of the purchase price over the estimated fair value recorded as goodwill.

### *Commercial Envelope*

On August 30, 2007, the Company acquired all of the stock of Commercial Envelope. Commercial Envelope is one of the largest envelope manufacturers in the United States, with approximately \$160.0 million in annual revenues prior to its acquisition by the Company. The total cash consideration in connection with the Commercial Envelope acquisition, excluding assumed debt of approximately \$20.3 million, was approximately \$218.0 million, including approximately \$3.8 million of related expenses. The Company financed the acquisition of Commercial Envelope with a new \$175.0 million senior unsecured loan and borrowings under its existing credit facilities (Note 10).

The following table summarizes, on a preliminary basis, the allocation of the purchase price of Commercial Envelope to the assets acquired and liabilities assumed in the acquisition and remains subject to finalization:

### Preliminary Purchase Price Allocation

| (in thousands)   | As of<br>August 30, 2007 |
|--|--------------------------|
| Current assets   | \$ 42,824                |
| Property, plant and equipment                                    | 36,757                   |
| Goodwill   | 102,254                  |
| Other intangible assets  | 87,770                   |
| Other assets   | 929                      |
| Total assets acquired  | 270,534                  |
| Current liabilities, excluding current portion of long-term debt | 9,782                    |
| Long-term debt, including current maturities                     | 20,277                   |
| Deferred income taxes  | 21,355                   |
| Total liabilities assumed  | 51,414                   |
| Net assets acquired  | 219,120                  |
| Less cash acquired   | (1,114)                  |
| Cost of Commercial Envelope acquisition, less cash acquired      | \$218,006                |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The Commercial Envelope acquisition preliminarily resulted in \$102.3 million of goodwill (Note 8), none of which is deductible for income tax purposes, and which was assigned entirely to the Company's envelopes, forms and labels segment. Such goodwill reflects the substantial value of Commercial Envelope's historical envelope business. Goodwill also reflects the Company's expectation of being able to grow the Commercial Envelope business and improve its operating efficiencies through economies of scale. The acquired identifiable intangible assets, aggregating \$87.8 million, include: (1) the Commercial Envelope trademark of \$51.4 million, which has been assigned an indefinite life due to its strong brand recognition, the Company's intention to continue using the Commercial Envelope name, including rebranding our existing commercial envelope operations with the Commercial Envelope name, the long operating history of Commercial Envelope, its existing customer base and its significant market position; (2) customer relationships of \$36.0 million, which are being amortized over their estimated weighted average useful lives of 15 years; and (3) covenants not to compete of \$0.4 million which are amortizable over their estimated useful lives of five years (Note 8). The Company also acquired favorable leases of \$0.5 million, which are being amortized as an increase to rent expense over their weighted average useful lease term of approximately five years. Each of the above amounts, including the amounts in the above table, represents the estimated fair value of the respective property, plant and equipment and other intangible assets, as determined in accordance with a preliminary appraisal. Commercial Envelope's results of operations and cash flows have been included in the Company's consolidated statements of operations and cash flows from the August 30, 2007 acquisition date, and are not included for the years ended December 31, 2006 and 2005.

## Unaudited Pro Forma Operating Data

The following supplemental pro forma consolidated summary operating data of the Company for each of the periods presented herein has been prepared by adjusting the historical data as set forth in the accompanying consolidated statements of operations to give effect to the Commercial Envelope acquisition as if it had been consummated as of the beginning of each respective year:

|  | Years Ended December 31, |             |             |             |
|--|--------------------------|-------------|-------------|-------------|
|  | 2007                     |             | 2006        |             |
| (in thousands, except per share data)    | As Reported              | Pro Forma   | As Reported | Pro Forma   |
| Net sales                                | \$2,046,716              | \$2,148,368 | \$1,511,224 | \$1,664,661 |
| Operating income                         | 137,550                  | 150,168     | 63,395      | 84,862      |
| Income (loss) from continuing operations | 23,985                   | 23,369      | (11,148)    | (10,131)    |
| Net income                               | 40,781                   | 40,165      | 115,371     | 116,388     |
| Income (loss) per share – basic:         |                          |             |             |             |
| Continuing operations                    | \$ 0.45                  | \$ 0.44     | \$ (0.21)   | \$ (0.20)   |
| Discontinued operations                  | 0.31                     | 0.31        | 2.38        | 2.38        |
| Net income                               | \$ 0.76                  | \$ 0.75     | \$ 2.17     | \$ 2.18     |
| Income (loss) per share – diluted:       |                          |             |             |             |
| Continuing operations                    | \$ 0.44                  | \$ 0.43     | \$ (0.21)   | \$ (0.20)   |
| Discontinued operations                  | 0.31                     | 0.31        | 2.38        | 2.38        |
| Net income                               | \$ 0.75                  | \$ 0.74     | \$ 2.17     | \$ 2.18     |

The pro forma information is presented for comparative purposes only and does not purport to be indicative of the Company's actual consolidated results of operations had the Commercial Envelope acquisition actually been consummated as of the beginning of each of the respective periods noted above, or of the Company's expected future results of operations.

## ColorGraphics

On July 9, 2007, the Company acquired all of the stock of ColorGraphics. ColorGraphics is one of the largest commercial printers in the western United States, with approximately \$170.0 million in annual revenues prior to its acquisition by the Company. ColorGraphics produces high quality annual reports, car books, catalogs and other corporate communication materials. The total cash consideration in connection with the ColorGraphics acquisition, excluding assumed debt of approximately \$28.6 million, was approximately \$71.7 million, including approximately \$0.9 million of related expenses. The fair values of property, plant and equipment and other intangible assets were determined in accordance with a preliminary appraisal. The ColorGraphics acquisition preliminarily



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

resulted in \$39.0 million of goodwill (Note 8), of which approximately \$2.1 million is deductible for income tax purposes, and which was assigned entirely to the Company's commercial printing segment. The acquired identifiable intangible assets, aggregating \$22.0 million, include: (1) the ColorGraphics trademark of \$18.8 million, which has been assigned an indefinite useful life due to the Company's intention to continue using the ColorGraphics name, and the long operating history, existing customer base and significant market position of ColorGraphics; (2) customer relationships of \$2.6 million, which are being amortized over their estimated weighted average useful lives of 11 years; and (3) a non-compete agreement of \$0.6 million which is amortizable over its estimated useful life of three years (Note 8). The Company financed the acquisition of ColorGraphics with its existing credit facilities (Note 10).

ColorGraphics' results of operations and cash flows have been included in the accompanying consolidated statements of operations and cash flows from July 1, 2007, and are not included in 2006 and 2005. Pro forma results for the years ended December 31, 2007 and 2006, assuming the acquisition of ColorGraphics had been made on January 1, 2006, have not been presented since the effect was not material.

### *Cadmus*

On March 7, 2007, the Company acquired all of the stock of Cadmus for \$24.75 per share, by merging an indirect wholly owned subsidiary of Cenveo with and into Cadmus. As a result, Cadmus became an indirect wholly owned subsidiary of Cenveo. Following the merger, Cadmus was merged into Cenveo Corporation, a direct wholly owned subsidiary of the Company. Cadmus is one of the world's largest providers of content management and print offerings to scientific, technical and medical journal publishers, one of the largest periodicals printers in North America, and a leading provider of specialty packaging and promotional printing products, with annual sales of approximately \$450.0 million prior to its acquisition by the Company. The total cash consideration in connection with the Cadmus acquisition, excluding assumed debt of approximately \$210.1 million, was approximately \$249.3 million, consisting of: (1) \$228.9 million in cash for all of the common stock of Cadmus, (2) payments of \$18.3 million for vested stock options and restricted shares of Cadmus and for change in control provisions in Cadmus' incentive plans and (3) \$2.1 million of related expenses.

The common stock of Cadmus, which traded on the NASDAQ Global Market under the symbol "CDMS", ceased trading and was delisted following the acquisition.

In connection with the Cadmus acquisition, the Company refinanced its existing indebtedness and \$70.1 million of Cadmus debt (Note 10).

The following table summarizes, on a preliminary basis, the allocation of the purchase price of Cadmus to the assets acquired and liabilities assumed in the acquisition and remains subject to finalization:

#### Preliminary Purchase Price Allocation

| (in thousands)   | As of<br>March 7, 2007 |
|--|------------------------|
| Current assets   | \$ 97,142              |
| Property, plant and equipment                                    | 136,268                |
| Goodwill   | 230,817                |
| Other intangible assets  | 111,600                |
| Other assets   | 6,856                  |
| Total assets acquired  | 582,683                |
| Current liabilities, excluding current portion of long-term debt | 57,989                 |
| Long-term debt, including current maturities                     | 210,063                |
| Deferred income taxes  | 7,500                  |
| Other liabilities  | 57,813                 |
| Total liabilities assumed  | 333,365                |
| Net assets acquired  | 249,318                |
| Less cash acquired   | —                      |
| Cost of Cadmus acquisition, less cash acquired                   | \$249,318              |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The Cadmus acquisition preliminarily resulted in \$230.8 million of goodwill (Note 8), none of which is deductible for income tax purposes, and which was assigned entirely to the Company's commercial printing segment. Such goodwill reflects the substantial value of Cadmus' historically profitable journal, periodicals and specialty packaging printing business. Goodwill also reflects the Company's expectation of being able to grow Cadmus' business and improve its operating efficiencies through economies of scale. The acquired identifiable intangible assets, aggregating \$111.6 million, include: (1) the Cadmus trademark of \$48.0 million, which has been assigned an indefinite life due to its strong brand recognition, the Company's intention to continue using the Cadmus name, the long operating history of Cadmus, its existing customer base and its significant market position, and (2) customer relationships of \$63.6 million, which are being amortized over their estimated weighted average useful lives of approximately 20 years (Note 8). The Company also acquired unfavorable leases of \$3.2 million, which are being amortized as a reduction to rent expense over their weighted average useful lease term of approximately 11 years. Each of the above amounts, including the amounts in the above table, represents the estimated fair value of the respective property, plant and equipment and other intangible assets, as determined in accordance with a preliminary appraisal.

Cadmus' results of operations and cash flows have been included in the Company's consolidated statements of operations and cash flows from the March 7, 2007 acquisition date and are not included for the years ended December 31, 2006 and 2005.

## Unaudited Pro Forma Operating Data

The following supplemental pro forma consolidated summary operating data of the Company for each of the periods presented herein has been prepared by adjusting the historical data as set forth in the accompanying consolidated statements of operations to give effect to the Cadmus acquisition as if it had been consummated as of the beginning of each respective year:

|  | Years Ended December 31, |             |             |             |
|--|--------------------------|-------------|-------------|-------------|
|  | 2007                     |             | 2006        |             |
| (in thousands, except per share amounts) | As Reported              | Pro Forma   | As Reported | Pro Forma   |
| Net sales                                | \$2,046,716              | \$2,128,533 | \$1,511,224 | \$1,964,395 |
| Operating income                         | 137,550                  | 140,874     | 63,395      | 70,532      |
| Income (loss) from continuing operations | 23,985                   | 19,029      | (11,148)    | (18,854)    |
| Net income                               | 40,781                   | 35,825      | 115,371     | 107,665     |
| Income (loss) per share – basic:         |                          |             |             |             |
| Continuing operations                    | \$ 0.45                  | \$ 0.36     | \$ (0.21)   | \$ (0.36)   |
| Discontinued operations                  | 0.31                     | 0.31        | 2.38        | 2.38        |
| Net income                               | \$ 0.76                  | \$ 0.67     | \$ 2.17     | \$ 2.02     |
| Income (loss) per share – diluted:       |                          |             |             |             |
| Continuing operations                    | \$ 0.44                  | \$ 0.35     | \$ (0.21)   | \$ (0.36)   |
| Discontinued operations                  | 0.31                     | 0.31        | 2.38        | 2.38        |
| Net income                               | \$ 0.75                  | \$ 0.66     | \$ 2.17     | \$ 2.02     |

The pro forma information is presented for comparative purposes only and does not purport to be indicative of the Company's actual consolidated results of operations had the Cadmus acquisition actually been consummated as of the beginning of each of the respective periods noted above, or of the Company's expected future results of operations.

## Printegra

On February 12, 2007, the Company acquired all of the stock of Printegra, with annual sales of approximately \$90.0 million prior to its acquisition by the Company. Printegra produces printed business communication documents regularly consumed by small and large businesses, including laser cut sheets, envelopes, business forms, security documents and labels. The aggregate purchase price for Printegra was approximately \$78.1 million, which included \$0.5 million of related expenses. The fair values of property, plant and equipment and other intangible assets were determined in accordance with a preliminary appraisal. The Printegra acquisition preliminarily resulted in \$37.1 million of goodwill (Note 8), of which approximately \$4.4 million is deductible for income tax purposes, and which was assigned entirely to the Company's envelopes, forms and labels segment. The acquired identifiable intangible assets, aggregating \$27.7 million, include: (1) customer relationships of \$21.7 million, which are being

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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amortized over their estimated weighted average useful lives of 25 years; and (2) trademarks of \$6.0 million, which are being amortized over their estimated weighted average useful lives of approximately 17 years (Note 8).

Printegra's results of operations and cash flows have been included in the accompanying consolidated statements of operations and cash flows from the February 12, 2007 acquisition date, and are not included for the years ended December 31, 2006 and 2005. Pro forma results for the years ended December 31, 2007 and 2006, assuming the acquisition of Printegra had been made on January 1, 2006, have not been presented since the effect was not material.

### *Deferred Taxes*

In connection with the acquisition of Commercial Envelope, the Company recorded a net deferred tax liability of \$20.7 million relating to indefinite lived intangible assets, after considering the release of \$21.5 million of existing valuation allowances against goodwill recorded. In connection with the acquisition of ColorGraphics, the Company recorded a net deferred tax liability of \$7.0 million. In connection with the acquisition of Printegra, the Company recorded a net deferred tax liability of \$7.4 million and released existing valuation allowances of a like amount against goodwill recorded, in accordance with SFAS 109.

### *Liabilities Related to Exit Activities*

In connection with the above acquisitions, the Company recorded liabilities in the purchase price allocation in connection with its preliminary plan to exit certain activities. A summary of the activity recorded for these liabilities is as follows:

| (in thousands)                          | <b>Lease<br/>Termination<br/>Costs</b> | <b>Employee<br/>Separation<br/>Costs</b> | <b>Other Exit<br/>Costs</b> | <b>Total</b> |
|---|--|--|-----------------------------|--------------|
| Liabilities recorded at January 1, 2007 | \$ —                                   | \$ —                                     | \$ —                        | \$ —         |
| Accruals, net                           | 5,641                                  | 7,056                                    | 1,802                       | 14,499       |
| Payments                                | (2,188)                                | (6,561)                                  | (1,451)                     | (10,200)     |
| Balance at December 31, 2007            | \$ 3,453                               | \$ 495                                   | \$ 351                      | \$ 4,299     |

### *Rx Technology Corporation*

On July 12, 2006, the Company completed the acquisition of all of the common stock of Rx Label Technology Corporation, which had annual sales of approximately \$35.0 million prior to its acquisition by the Company, and operates under the name Rx Technology Corporation ("Rx Technology"). Rx Technology specializes in providing pharmacies with labels used to dispense prescription drugs to consumers. The aggregate purchase price paid for Rx Technology was approximately \$49.4 million, which included \$0.6 million of fees and expenses. The fair values of property, plant and equipment and other intangible assets were determined in accordance with appraisals. The Rx Technology acquisition resulted in \$29.1 million of goodwill (Note 8), of which approximately \$8.9 million is deductible for income tax purposes. The other identifiable intangible assets determined by an appraisal was \$12.9 million of customer relationships which is being amortized over their estimated weighted average useful life of 19 years and \$0.6 million of patent technology which is being amortized over six years (Note 8). Rx Technology's operations are included within the Company's envelopes, forms and labels segment results, from the date of acquisition. In connection with the acquisition of Rx Technology, the Company recorded a net deferred tax liability of \$3.6 million and released existing valuation allowances of a like amount against goodwill recorded, in accordance with SFAS 109.

### *Rex Corporation*

On December 27, 2007, the Company signed an agreement to acquire 100% of the outstanding stock of Rex Corporation ("Rex"). Rex is one of the largest independent manufacturers of premium and high-quality packaging solutions and generated annual revenues of approximately \$40.0 million for its most recently completed fiscal year. The transaction is expected to be completed in March 2008 and currently expected to be funded using the Company's Revolving Credit Facility.

## **4. Discontinued Operations**

On March 31, 2006, the Company sold to the Supremex Income Fund (the "Fund"), all of the shares of Supremex, Inc. and certain other assets ("Supremex"), and received cash proceeds of approximately \$119.4 million, net of transaction expenses and subject to the finalization of a working capital adjustment, and approximately 11.4 million units of the Fund (retaining a

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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36.5% economic and voting interest in the Fund). The March 31, 2006 sale resulted in a pre-tax gain of approximately \$124.1 million in the first quarter of 2006, after the allocation of \$55.8 million of goodwill to the business as required by SFAS No. 142, Goodwill and Other Intangible Assets. The acquisition agreement pursuant to which the Company sold Supremex on March 31, 2006 to the Fund contains representations and warranties regarding the business that was sold that are customary for transactions of this nature. The acquisition agreement also required the Company to provide specified indemnities (subject to agreed-upon limitations) including, without limitation: (i) an indemnity in the event that its representations and warranties in the acquisition agreement were inaccurate; (ii) an indemnity regarding certain inquiries by the Canadian Competition Bureau; and (iii) an indemnity for certain contingencies. The Company does not believe that the foregoing representations, warranties and related indemnities will result in the Company making any material payments to the Fund.

In addition, after the March 31, 2006 closing, in April 2006 the Company received approximately (1) \$71.4 million of proceeds relating to the March 31, 2006 sale and recorded a pre-tax gain of approximately \$1.4 million as a result of the Canadian dollar strengthening against the U.S. dollar, and (2) \$20.7 million from the sale of 2.5 million units in the Fund relating to an over-allotment option to the underwriters and recorded a pre-tax gain of approximately \$9.3 million, which reduced the Company's economic and voting interest in the Fund to 28.6%. The Company used a significant portion of the above proceeds received to repay outstanding debt in March and April 2006.

In December 2006, the Company decided to sell its remaining units in the Fund, which it completed in March of 2007 and determined it would not have any significant influence over its investment after the sale. Discontinued operations include equity income of \$6.2 million related to distributions the Company received from the Fund for its retained investment in the Fund after the March 31, 2006 sale through December 31, 2006. As a result of the finalization of the working capital adjustment in December 2006, the Company recorded an additional pre-tax gain on the sale of \$3.5 million and a reduction to the gain on sale of \$2.7 million as a result of finalization of 2005 tax returns. In 2006, the operating results of the discontinued operations are for the period from January 1, 2006 to March 31, 2006, the date of the sale, and includes equity income from April 1, 2006 through December 31, 2006. As of December 31, 2006, the Company's investment in the Fund was \$46.2 million, which is classified in assets held for sale on the consolidated balance sheet.

On March 13, 2007, the Company sold its remaining 28.6% economic and voting interest in the Fund for \$67.2 million and recorded a pre-tax gain in 2007 of approximately \$25.4 million. Income from discontinued operations for the year ended December 31, 2007 includes equity income of \$2.2 million related to the Company's retained interest in the Fund from January 1, 2007 through the March 13, 2007 date of sale.

The following table summarizes certain statement of operations data for discontinued operations:

| (in thousands)  | 2007   | 2006     | 2005      |
|---|--------|----------|-----------|
| Net sales   | \$ —   | \$41,391 | \$154,600 |
| Operating income  | —      | 8,838    | 34,208    |
| Other income  | 2,065  | —        | —         |
| Income tax expense  | 2,276  | 1,373    | 19,948    |
| Gain on sale of discontinued operations, net of taxes of<br>\$8,427 and \$22,456 in 2007 and 2006, respectively | 17,007 | 113,477  | —         |
| Income from discontinued operations, net of taxes   | 16,796 | 126,519  | 13,049    |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### *Reconciliation of net earnings of the Fund to equity income*

The table below presents a reconciliation of the audited Canadian GAAP net earnings of the Fund for the nine months ended December 31, 2006 to the \$6.2 million of equity income before withholding taxes reflected in discontinued operations in the Company's consolidated financial statements (in thousands). The adjustments relate to the difference between the basis of the assets in the Fund's financial statements which were recorded at fair value at the inception of the Fund and the historical cost basis of the assets in Cenveo's consolidated financial statements.

|   |           |
|---|-----------|
| Net earnings of the Fund in Canadian dollars  | \$ 19,431 |
| Adjustment to earnings of the Fund resulting from the reversal of fair value adjustments in Canadian dollars: |           |
| Amortization of intangibles   | 4,232     |
| Increased cost of sales on inventory step-up  | 4,304     |
| Decreased amortization of property, plant and equipment   | (549)     |
| Income tax effect of above adjustments  | (2,492)   |
| Income tax recovery from change in tax rates relating to asset revaluations                                   | (489)     |
| Net earnings of the Fund adjusted to reflect Cenveo's carrying value under U.S. GAAP                          | \$ 24,437 |
| Equity income in the Fund at 28.6% in Canadian dollars  | 6,989     |
| Canadian dollar/U.S. dollar exchange rate   | 1.13147   |
| Equity income in the Fund in U.S. dollars   | \$ 6,177  |

### 5. Other Divestitures

During 2006, the Company sold three small non-strategic commercial printing businesses in Somerville, Massachusetts, Bloomfield Hills, Michigan and Memphis, Tennessee for net proceeds of \$3.2 million and recorded losses on sale of non-strategic businesses of \$2.0 million.

During 2005, the Company sold six small non-strategic businesses, including a fine papers business in Ontario, Canada, a mailing supplies business in Dekalb, Illinois, printing operations in Riviera Beach, Florida, Jacksonville, Illinois and Osage Beach, Missouri and a jet printing operation in Vancouver, Canada for net proceeds of \$8.4 million and recorded losses on sale of non-strategic businesses of \$4.5 million.

The following table summarizes the net sales and operating income (loss) of the businesses that were sold for the years ended December 31:

| (in thousands)          | 2006    | 2005     |
|-------------------------|---------|----------|
| Net sales               | \$9,355 | \$43,773 |
| Operating (loss) income | (1,375) | 345      |

The dispositions of these non-strategic businesses have not been accounted for as discontinued operations in the consolidated financial statements because the Company has continuing involvement with these entities, migration of cash flows to other Cenveo locations has occurred, or the operations are not material.

### 6. Inventories

Inventories by major category are as follows:

|                 | December 31,      |                  |
|-----------------|-------------------|------------------|
| (in thousands)  | 2007              | 2006             |
| Raw materials   | \$ 71,075         | \$ 28,030        |
| Work in process | 34,875            | 21,285           |
| Finished goods  | 56,958            | 42,219           |
|                 | <u>\$ 162,908</u> | <u>\$ 91,534</u> |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## 7. Property, Plant and Equipment

Property, plant and equipment are as follows:

| (in thousands)             | December 31,      |                   |
|----------------------------|-------------------|-------------------|
|                            | 2007              | 2006              |
| Land and land improvements | \$ 23,734         | \$ 13,562         |
| Buildings and improvements | 109,673           | 80,740            |
| Machinery and equipment    | 577,763           | 437,910           |
| Furniture and fixtures     | 12,430            | 10,771            |
| Construction in progress   | 18,664            | 6,974             |
|                            | <b>742,264</b>    | <b>549,957</b>    |
| Accumulated depreciation   | <b>(313,923)</b>  | <b>(298,854)</b>  |
|                            | <b>\$ 428,341</b> | <b>\$ 251,103</b> |

## 8. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for 2007 and 2006 by reportable segment (Note 19) are as follows:

| (in thousands)                         | Envelopes, Forms<br>and Labels | Commercial<br>Printing | Total            |
|--|--------------------------------|------------------------|------------------|
| Balance as of December 31, 2005        | \$218,038                      | \$ 93,108              | \$311,146        |
| Acquisitions                           | 29,122                         | —                      | 29,122           |
| Dispositions                           | (55,739)                       | (747)                  | (56,486)         |
| Reclassified to assets held for sale   | (25,749)                       | —                      | (25,749)         |
| Foreign currency translation           | —                              | 103                    | 103              |
| Balance as of December 31, 2006        | \$165,672                      | \$ 92,464              | \$258,136        |
| Acquisitions                           | 139,353                        | 271,205                | 410,558          |
| Foreign currency translation           | —                              | 1,108                  | 1,108            |
| <b>Balance as of December 31, 2007</b> | <b>\$305,025</b>               | <b>\$364,777</b>       | <b>\$669,802</b> |

Other intangible assets are as follows:

| (in thousands)                                    | December 31, 2007           |                             |                           | December 31, 2006           |                             |                           |
|---|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
|   | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| <b>Intangible assets with determinable lives:</b> |                             |                             |                           |                             |                             |                           |
| Customer relationships                            | \$153,806                   | \$(22,303)                  | \$131,503                 | \$29,906                    | \$(13,001)                  | \$16,905                  |
| Trademarks and tradenames                         | 20,521                      | (3,251)                     | 17,270                    | 14,551                      | (2,487)                     | 12,064                    |
| Patents   | 3,028                       | (1,487)                     | 1,541                     | 3,028                       | (1,218)                     | 1,810                     |
| Non-compete agreements                            | 2,316                       | (1,336)                     | 980                       | 1,640                       | (1,591)                     | 49                        |
| Other   | 768                         | (360)                       | 408                       | 768                         | (331)                       | 437                       |
|   | <b>180,439</b>              | <b>(28,737)</b>             | <b>151,702</b>            | <b>49,893</b>               | <b>(18,628)</b>             | <b>31,265</b>             |
| <b>Intangible assets with indefinite lives:</b>   |                             |                             |                           |                             |                             |                           |
| Trademarks  | 118,200                     | —                           | 118,200                   | —                           | —                           | —                         |
| Pollution credits                                 | 720                         | —                           | 720                       | 720                         | —                           | 720                       |
| <b>Total</b>                                      | <b>\$299,359</b>            | <b>\$(28,737)</b>           | <b>\$270,622</b>          | <b>\$50,613</b>             | <b>\$(18,628)</b>           | <b>\$31,985</b>           |

As of December 31, 2007, the weighted average remaining amortization period for customer relationships was 18 years, trademarks and trade names was 26 years, patents was six years, non-compete agreements was four years and other was 27 years.

Total pre-tax amortization expense for the five years ending December 31, 2012 is estimated to be as follows: \$8.5 million, \$8.5 million, \$8.4 million, \$8.2 million and \$8.2 million, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 9. Other Current Liabilities

Other current liabilities are as follows:

|                           | December 31,     |                  |
|---------------------------|------------------|------------------|
| (in thousands)            | 2007             | 2006             |
| Accrued customer rebates  | \$ 19,579        | \$ 19,135        |
| Other accrued liabilities | 59,975           | 44,677           |
|                           | <b>\$ 79,554</b> | <b>\$ 63,812</b> |

### 10. Long-Term Debt

Long-term debt is as follows:

|  | December 31,       |                  |
|--|--------------------|------------------|
| (in thousands)   | 2007               | 2006             |
| Term Loan, due 2013  | \$ 715,100         | \$324,188        |
| 7½% Senior Subordinated Notes, due 2013  | 320,000            | 320,000          |
| 8¾% Senior Subordinated Notes, due 2014 (\$104.1 million outstanding principal amount) | 106,220            | —                |
| Senior Unsecured Loan, due 2015  | 175,000            | —                |
| Revolving Credit Facility, due 2012  | 91,200             | 15,500           |
| 9½% Senior Notes, due 2012   | —                  | 10,498           |
| Other  | 37,117             | 5,109            |
|  | <b>1,444,637</b>   | <b>675,295</b>   |
| Less current maturities  | (18,752)           | (7,513)          |
| Long-term debt   | <b>\$1,425,885</b> | <b>\$667,782</b> |

#### Senior Unsecured Loan

On August 30, 2007, the Company borrowed \$175.0 million under a new eight-year unsecured loan facility (the "Senior Unsecured Loan") with a group of lenders. Proceeds from the Senior Unsecured Loan along with borrowings from the Company's \$200.0 million six-year revolving credit facility (the "Revolving Credit Facility") and available cash were used to fund the acquisition of Commercial Envelope (Note 3), including retiring certain acquired debt and to pay certain fees and expenses incurred in connection with the acquisition. The Senior Unsecured Loan has a floating interest rate based on the London Interbank Offered Rate ("LIBOR") plus an interest rate margin, which margin was 4.5% on December 31, 2007, making the interest rate on that date 9.3%. The interest rate margin increases by 0.5% quarterly beginning on January 1, 2008 up to a maximum interest rate of 11.5%. The Senior Unsecured Loan provides for the conversion by the lenders into senior or senior subordinated exchange notes (the "Exchange Notes") of the Company similar to the existing indenture relating to the Company's \$320.0 million 7½% senior subordinated notes due 2013 (the "7½% Notes") or a substantially similar indenture. If the Senior Unsecured Loan is converted, the Exchange Notes will bear a fixed rate of interest based on market conditions at the time of conversion. The Senior Unsecured Loan contains covenants, representations, and warranties substantially similar to the Company's existing \$925.0 million senior secured credit facilities (the "Amended Credit Facilities") and includes provisions for an underwriting/purchase agreement and a registration rights agreement relating to the resale of the Exchange Notes. The Company capitalized debt issuance costs of approximately \$4.6 million, which are being amortized over the remaining life of the Senior Unsecured Loan.

#### Term Loans

On July 9, 2007, the Company increased the then outstanding balance of its seven-year term loan facility due 2013 (the "Term Loan C") and the delayed-draw term loan facility (collectively with the Term Loan C, the "Term Loans") that are part of the Amended Credit Facilities by borrowing an incremental \$100.0 million on the existing financial terms and financial covenants. Proceeds from this borrowing along with available cash were used to fund the acquisition of ColorGraphics (Note 3), including retiring certain acquired debt and to pay certain fees and expenses incurred in connection with the acquisition. The Company capitalized debt issuance costs of approximately \$0.3 million, which are being amortized over the remaining life of the Term Loans.

**2007 Debt Amendment and Refinancing.** On March 7, 2007, in connection with the Cadmus acquisition (Note 3), the Company amended and refinanced its \$525.0 million senior secured credit facilities (the "Credit Facilities"). The Credit Facilities, established in June 2006, were comprised of the Revolving Credit Facility and a \$325.0 million seven-year term loan facility (the "Term Loan B"). The Credit Facilities were amended by increasing the overall borrowing availability from \$525.0 million to \$925.0 million to create the Amended Credit Facilities, allowing the Company to: (1) retire the Term Loan B, (2) acquire Cadmus, including retiring and extinguishing the Cadmus revolving senior bank credit facility, which had an outstanding balance of \$70.1 million, using the Revolving Credit Facility and \$600.0 million Term Loan C, and (3) retire any and/or all of the Cadmus 8% senior subordinated notes due 2014 (the "8% Notes") using a \$125.0 million delayed-draw term loan facility. Several customary financial covenants within the Amended Credit Facilities, including maximum consolidated leverage ratio and minimum consolidated interest coverage ratio, were modified to provide for the incremental funded debt levels and larger company operations. The Amended Credit Facilities are secured by substantially all of the Company's assets. The Company capitalized debt issuance costs of approximately \$0.9 million, which are being amortized over the remaining life of the Amended Credit Facilities. In connection with the Amended Credit Facilities, the Company recorded a loss on early extinguishment of debt of \$8.4 million, which includes \$6.7 million of related fees and the write-off of \$1.7 million of unamortized debt issuance costs.

**2006 Debt Refinancing.** On June 21, 2006, the Company entered into a senior secured credit agreement with a syndicate of lenders that became the Credit Facilities. The Credit Facilities consisted of the Revolving Credit Facility and the Term Loan B. The Credit Facilities were amended in March 2007 to become the Amended Credit Facilities, which helped facilitate the purchase of Cadmus. The Credit Facilities contained customary financial covenants, including maintenance of a maximum consolidated leverage ratio and a minimum consolidated interest coverage ratio. Borrowing rates under the Credit Facilities, and now the Amended Credit Facilities are determined at the Company's option at the time of each borrowing and are based on LIBOR or the prime rate publicly announced from time to time, in each case plus a specified interest rate margin (see "Interest Rate Swaps"). The Credit Facilities were secured by substantially all of the Company's assets. Proceeds from the Credit Facilities and other available cash were used to fund a tender offer and consent solicitation (the "Tender Offer") for any and all of the \$350.0 million 9% senior notes due 2012 (the "9% Notes"), to retire the Company's then existing senior secured credit facility due 2008 (which had no amounts outstanding), and for \$3.8 million of debt issuance costs, which were written off in 2007 when the Credit Facilities became the Amended Credit Facilities.

In connection with the debt refinancing in June 2006, the Company incurred a \$32.7 million loss on early extinguishment of debt related to the Tender Offer and the retirement of the then existing senior secured credit facility, which consisted of Tender Offer premiums of \$25.2 million, the write-off of previously unamortized deferred financing costs of \$6.6 million and Tender Offer expenses of \$0.9 million.

#### **8% Senior Subordinated Notes**

On March 5, 2007, the Company commenced a cash tender offer and consent solicitation (the "Cadmus Tender Offer") for any and all of the outstanding 8% Notes at total consideration equal to 101.5% of outstanding principal plus any accrued and unpaid interest thereon for 8% Notes validly tendered and not withdrawn by March 16, 2007. Interest on the 8% Notes is payable semi-annually on June 15 and December 15 with no required principal payments prior to maturity on June 15, 2014. In connection with the acquisition of Cadmus, the Company recorded a \$2.8 million increase to the value of the 8% Notes to record them at their fair value (Note 3), which fair value increase is being amortized over the life of the 8% Notes.

On March 19, 2007, the Company accepted for purchase and paid approximately \$20.9 million for the 8% Notes tendered in the Cadmus Tender Offer, using \$20.0 million of delayed-draw term loan funding under the Amended Credit Facilities and cash on hand. In connection with the 8% Notes tendered, the Company recorded a loss on early extinguishment of debt of approximately \$0.3 million, which included \$0.8 million of tender premiums and tender-related expenses and the write-off of \$0.5 million of the fair value increase to the 8% Notes recorded in connection with the Cadmus acquisition. The merger of Cadmus into Cenveo was a "change of control" of Cadmus under the 8% Notes indenture. On March 23, 2007 and in connection with the foregoing change of control, the Company extended the scheduled expiration of the Cadmus Tender Offer until April 18, 2007, modified the offer to purchase each 8% Note tendered for a price equal to 101.0% of outstanding principal plus any accrued and unpaid interest, and waived certain consent-related conditions (the "Change of Control Offer"). On April 23, 2007, the Company settled payment on all 8% Notes tendered under the Change of Control Offer, and terminated the remaining amount of the delayed-draw term loan facility under the Amended Credit Facilities.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### *Supplemental Indentures*

The Company entered into supplemental indentures, dated March 7, 2007, July 9, 2007, August 30, 2007 and November 7, 2007 to the indenture dated June 15, 2004, among Cadmus, each of the subsidiary guarantors (as defined therein) and U.S. Bank National Association (as successor trustee to Wachovia Bank, National Association), as trustee, pursuant to which the 8 $\frac{3}{4}$ % Notes were issued. These supplemental indentures provide for, among other things, the assumption by the Company of the obligations of Cadmus under the 8 $\frac{3}{4}$ % Notes and such indenture and the addition of: (1) other U.S. subsidiaries of the Company, (2) ColorGraphics and its subsidiary, (3) Commercial Envelope and its subsidiaries and (4) other Canadian subsidiaries of the Company as guarantors of these notes. Simultaneously, the Company entered into supplemental indentures, dated March 7, 2007, July 9, 2007 and August 30, 2007 to the indenture dated February 4, 2004 among the Company, the guarantors named therein and U.S. Bank National Association, as trustee, pursuant to which the Company's 7 $\frac{7}{8}$ % Notes were issued. These supplemental indentures provide for, among other things, the addition of: (1) the U.S. subsidiaries of Cadmus, (2) ColorGraphics and its subsidiary and (3) Commercial Envelope and its subsidiaries as guarantors of the 7 $\frac{7}{8}$ % Notes.

### *7 $\frac{7}{8}$ % Notes*

In January 2004, the Company issued \$320.0 million of the 7 $\frac{7}{8}$ % Notes, with semi-annual interest payments due on June 1 and December 1, and no required principal payments prior to the maturity on December 1, 2013. The Company may redeem these notes, in whole or in part, on or after December 1, 2008, at redemption prices from 103.938% to 100%, plus accrued and unpaid interest. The debt issuance costs for the Senior Subordinated Notes of \$7.2 million are being amortized over the term of the notes.

### *9 $\frac{5}{8}$ % Notes*

On May 4, 2007, the Company retired the remaining \$10.5 million of its 9 $\frac{5}{8}$ % Notes for 104.813% of the principal amount plus accrued interest, which was funded with its Revolving Credit Facility. In connection with the retirement of the 9 $\frac{5}{8}$ % Notes, the Company recorded a loss on early extinguishment of debt of \$0.5 million, representing premiums paid.

On June 23, 2006, the Company completed the Tender Offer for any and all of its \$350 million 9 $\frac{5}{8}$ % Notes and extinguished approximately \$339.5 million in aggregate principal amount (approximately 97% of the outstanding amount) that were tendered and accepted for purchase under the terms of the Tender Offer.

### *Other Debt*

Other debt of approximately \$37.1 million at December 31, 2007, consists primarily of equipment loans assumed in the acquisition of Cadmus, ColorGraphics and Commercial Envelope. Of this debt, \$21.0 million had variable interest rates with an average interest rate of 6.0%, while \$16.1 million had an average fixed interest rate of 5.8%.

The aggregate annual maturities for long-term debt are as follows:

| (in thousands) |                    |
|----------------|--------------------|
| 2008           | \$ 18,752          |
| 2009           | 15,073             |
| 2010           | 13,612             |
| 2011           | 11,946             |
| 2012           | 99,956             |
| Thereafter     | 1,283,199          |
|                | <u>\$1,442,538</u> |

Cash interest payments on long-term debt were \$89.2 million in 2007, \$68.0 million in 2006 and \$68.9 million in 2005.

The estimated fair value of the Company's long-term debt was \$1.3 billion and \$665.9 million at December 31, 2007 and 2006, respectively.

The Amended Credit Facilities and the Senior Unsecured Loan contain certain restrictions that, among other things and with certain exceptions, limit the ability of the Company to incur additional indebtedness, prepay subordinated debt, transfer assets outside of the Company, pay dividends or repurchase shares of common stock. The Company is also required to comply with maximum consolidated leverage ratio and minimum consolidated interest coverage ratio financial covenants pertaining to the Amended Credit Facilities and the Senior Unsecured Loan, as well as provide certain financial information on a quarterly basis, including maintaining effective internal controls.

As of December 31, 2007, the Company was in compliance with all covenants under its debt agreements.

#### ***Interest Rate Swaps***

The Company enters into interest rate swap agreements to hedge interest rate exposure of notional amounts of its floating rate debt. In 2007 and 2006 the Company entered into \$375.0 million and \$220.0 million, respectively, of such interest rate swaps. As of December 31, 2007 and 2006, the Company had \$595.0 million and \$220.0 million, respectively, of such interest rate swaps. The Company's hedges of interest rate risk were designated and documented at inception as cash flow hedges and are evaluated for effectiveness at least quarterly. Effectiveness of the hedges is calculated by comparing the fair value of the derivatives to hypothetical derivatives that would be a perfect hedge of floating rate debt. The accounting for gains and losses associated with changes in the fair value of cash flow hedges and the effect on the Company's consolidated financial statements will depend on whether the hedge is highly effective in achieving offsetting changes in fair value of cash flows of the liability hedged (Note 16). As of December 31, 2007, the Company does not anticipate reclassifying any ineffectiveness into its results of operations for the next twelve months.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## 11. Income Taxes

Income (loss) from continuing operations before income taxes for the years ended December 31, was as follows:

| (in thousands) | 2007             | 2006              | 2005               |
|----------------|------------------|-------------------|--------------------|
| Domestic       | \$ 35,712        | \$(33,975)        | \$(105,403)        |
| Foreign        | (1,827)          | 1,689             | (350)              |
|                | <b>\$ 33,885</b> | <b>\$(32,286)</b> | <b>\$(105,753)</b> |

Income tax expense (benefit) on income (loss) from continuing operations for the years ended December 31, consisted of the following:

| (in thousands)                 | 2007            | 2006              | 2005            |
|--------------------------------|-----------------|-------------------|-----------------|
| Current tax expense (benefit): |                 |                   |                 |
| Federal                        | \$ 747          | \$ 3,082          | \$ 5,839        |
| Foreign                        | (1,300)         | 247               | 595             |
| State                          | 1,690           | 375               | 249             |
|                                | <b>1,137</b>    | <b>3,704</b>      | <b>6,683</b>    |
| Deferred (benefit) expense:    |                 |                   |                 |
| Federal                        | 7,400           | (23,353)          | 31,853          |
| Foreign                        | (703)           | 33                | (239)           |
| State                          | 2,066           | (1,522)           | 4,051           |
|                                | <b>8,763</b>    | <b>(24,842)</b>   | <b>35,665</b>   |
| Income tax expense (benefit)   | <b>\$ 9,900</b> | <b>\$(21,138)</b> | <b>\$42,348</b> |

A reconciliation of the expected tax expense (benefit) based on the federal statutory tax rate to the Company's actual income tax expense (benefit) for the years ended December 31, is summarized as follows:

| (in thousands)  | 2007            | 2006              | 2005             |
|---|-----------------|-------------------|------------------|
| Expected tax expense (benefit) at federal statutory income tax rate | \$11,860        | \$(11,300)        | \$(37,013)       |
| State and local income tax expense (benefit)                        | 2,352           | (1,130)           | (3,701)          |
| Change in valuation allowance                                       | (4,621)         | (11,593)          | 79,951           |
| Change in contingency reserves                                      | 299             | —                 | 2,073            |
| Utilization of foreign tax credits, net                             | —               | —                 | (91)             |
| Non-U.S. tax rate differences                                       | (478)           | (306)             | 524              |
| Non-deductible expenses   | 1,349           | 873               | 709              |
| Non-deductible investment expense                                   | 274             | 1,248             | 254              |
| Expiration of net operating losses                                  | —               | 565               | 516              |
| Statutory foreign rate change                                       | (921)           | —                 | —                |
| Other   | (214)           | 505               | (874)            |
| Income tax expense (benefit)  | <b>\$ 9,900</b> | <b>\$(21,138)</b> | <b>\$ 42,348</b> |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Deferred taxes are recorded to give recognition to temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The tax effects of these temporary differences are recorded as deferred tax assets and deferred tax liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years. Deferred tax liabilities generally represent items that have been deducted for tax purposes, but have not yet been recorded in the consolidated statements of operations. Valuation allowances are recorded to reduce deferred tax assets when it is "not more likely than not" that a tax benefit will be realized. The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities of the Company at December 31, are as follows:

| (in thousands)                               | 2007        | 2006      |
|--|-------------|-----------|
| Deferred tax assets:                         |             |           |
| Net operating loss carryforwards             | \$ 85,873   | \$ 74,094 |
| Capital loss carryback                       | 3,621       | —         |
| Compensation and benefit related accruals    | 32,424      | 15,986    |
| Foreign tax credit carryforwards             | 16,661      | 16,662    |
| Alternative minimum tax credit carryforwards | 8,119       | 9,180     |
| Accounts receivable                          | 3,808       | 1,288     |
| Restructuring accruals                       | 6,539       | 4,769     |
| Gain on discontinued operations              | —           | 13,879    |
| Accrued tax and interest                     | 12,128      | —         |
| Other  | 9,779       | 7,996     |
| Valuation allowance                          | (30,780)    | (55,746)  |
| Total deferred tax assets                    | 148,172     | 88,108    |
| Deferred tax liabilities:                    |             |           |
| Property, plant and equipment                | (68,085)    | (48,697)  |
| Goodwill and other intangible assets         | (118,686)   | (26,954)  |
| Inventory                                    | 842         | (2,659)   |
| Other  | 531         | (2,425)   |
| Total deferred tax liabilities               | (185,398)   | (80,735)  |
| Net deferred tax (liability) asset           | \$ (37,226) | \$ 7,373  |

The net deferred tax asset (liability) as of December 31, includes the following:

| (in thousands)  | 2007        | 2006     |
|---|-------------|----------|
| Current deferred tax asset (included in prepaid and other current assets) | \$ 17,955   | \$ 4,070 |
| Long-term deferred tax asset (included in other assets, net)              | —           | 7,659    |
| Long-term deferred tax liability  | (55,181)    | (4,356)  |
| Total   | \$ (37,226) | \$ 7,373 |

The Company has federal and state net operating loss carryforwards. The tax effect of these attributes was \$85.9 million as of December 31, 2007. The Company utilized all of its capital loss carryforwards in 2006. Net operating loss carryforwards of \$220.7 million will expire in 2023 through 2026, foreign tax credit carryforwards of \$16.7 million will expire in 2012 through 2015 and alternative minimum tax credit carryforwards of \$8.1 million do not have an expiration date.

The Company assesses the recoverability of its deferred tax assets and, to the extent recoverability does not satisfy the "more likely than not" recognition criteria under SFAS 109, records a valuation allowance against its deferred tax assets. The Company considered its recent operating results and anticipated future taxable income in assessing the need for its valuation allowance. As a result, in the fourth quarter of 2007, the Company adjusted its valuation allowance to reflect the realization of deferred tax assets of \$4.6 million as reflected in the effective tax rate. In 2006, the Company decreased its valuation allowance by approximately \$58.1 million, primarily as a result of utilizing its net operating loss carryforwards, principally against the gain on sale of Supremex and certain other assets, which is reflected in discontinued operations (Note 4).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

During 2005, due to insufficient positive evidence substantiating recoverability, the Company increased its valuation allowance against its net U.S. deferred tax assets by \$87.1 million, which included \$7.1 million relating to the tax benefit from stock-based compensation. This resulted from management determining that it would no longer implement prior identified tax planning strategies.

The remaining portion of the Company's valuation allowance as of December 31, 2007 will be maintained until there is sufficient positive evidence to conclude that it is more likely than not that the remaining deferred tax assets will be realized. When sufficient positive evidence exists, the Company's income tax expense will be reduced by the decrease in its valuation allowance. An increase or reversal of the Company's valuation allowance could have a significant negative or positive impact on the Company's future earnings.

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109) ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. As a result of the adoption of FIN 48, the Company did not record an adjustment to its liability for unrecognized income tax benefits or retained deficit. Included in the balance of unrecognized tax benefits at December 31, 2007 are \$0.4 million of tax benefits that, if recognized would affect the effective tax rate. Also included in the balance of unrecognized tax benefits at December 31, 2007 are tax benefits that, if recognized would result in a decrease to goodwill of \$4.5 million and tax benefits that, if recognized would result in adjustments of \$13.5 million to other tax accounts. The Company does not believe that it is reasonably possible that its unrecognized tax benefits will change significantly in the next twelve months. The Company recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. Related to the uncertain tax benefits noted above, the Company accrued penalties of \$0.1 million and interest of \$1.8 million during 2007 and, in total, as of December 31, 2007, has recognized a liability for penalties of \$0.4 million and interest of \$5.0 million.

The Company's unrecognized tax benefit activity for 2007 was as follows:

|   |          |
|---|----------|
| Unrecognized tax benefit — January 1, 2007        | \$10,748 |
| Gross increases — tax positions in prior period   | 540      |
| Gross decreases — tax positions in prior period   | —        |
| Gross increases — tax positions in current period | 6,743    |
| Settlements                                       | —        |
| Lapse of statute of limitations                   | —        |
| Unrecognized tax benefit — December 31, 2007      | \$18,031 |

The Internal Revenue Service ("IRS") has reviewed the Company's federal income tax returns through 2002. The Company's federal income tax returns for tax years after 2003 remain subject to examination by the IRS. The various states in which the Company is subject to income tax are generally open for the tax years after 2003. In Canada, the Company remains subject to audit for tax years after 2002. The Company does not believe that the outcome of any examination will have a material impact on its consolidated financial statements.

Net cash payments for income taxes were \$3.8 million in 2007, \$2.7 million in 2006 and \$1.5 million in 2005.

### 12. Restructuring, Impairment and Other Charges

The Company has two cost savings plans, the 2007 Cost Savings and Integration Plan and the 2005 Cost Savings and Restructuring Plan.

#### *2007 Cost Savings and Integration Plan*

The Company has formulated its preliminary cost savings and integration plan related to the 2007 Acquisitions. In connection with the implementation of this plan, during 2007, the Company closed an envelope plant in O'Fallon, Missouri, a forms plant in Girard, Kansas and commercial printing plants in San Francisco, California, Seattle, Washington and Philadelphia, Pennsylvania and reduced headcount by approximately 500 employees. The Company integrated these operations into acquired and other Company operations. The following table and discussion present the details of the expenses recognized in the year ended December 31, 2007 as a result of this plan.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## 2007 Activity

Restructuring and impairment charges for the year ended December 31, 2007 are as follows:

| (in thousands)                             | Envelopes,<br>Forms and<br>Labels | Commercial<br>Printing | Total    |
|--|-----------------------------------|------------------------|----------|
| Employee separation costs                  | \$2,381                           | \$ 2,684               | \$ 5,065 |
| Asset impairments                          | 3,989                             | 4,159                  | 8,148    |
| Equipment moving expenses                  | 1,389                             | 1,166                  | 2,555    |
| Lease termination expenses                 | 126                               | 3,773                  | 3,899    |
| Multi-employer pension withdrawal expenses | —                                 | 2,092                  | 2,092    |
| Building clean-up and other expenses       | 885                               | 1,784                  | 2,669    |
| Total restructuring and impairment charges | \$8,770                           | \$15,658               | \$24,428 |

**Envelopes, Forms and Labels.** As a result of the above closures, the envelopes, forms and labels segment recorded employee separation costs of \$2.4 million related to workforce reductions, asset impairment charges of \$4.0 million related to equipment taken out of service, equipment moving expenses of \$1.4 million for the redeployment of equipment, lease termination expenses of \$0.1 million and building clean-up and other related expenses of \$0.9 million.

**Commercial Printing.** As a result of the above closures, the commercial printing segment recorded employee separation costs of \$2.7 million related to workforce reductions, asset impairment charges of \$4.2 million related to equipment taken out of service, equipment moving expenses of \$1.2 million for the redeployment of equipment, lease termination expenses of \$3.8 million, a pension withdrawal liability of \$2.1 million and building clean-up and other related expenses of \$1.8 million.

A summary of the activity charged to the restructuring liabilities as a result of the 2007 cost savings and integration plan is as follows:

| (in thousands)               | Lease<br>Termination<br>Costs | Employee<br>Separation<br>Costs | Pension<br>Withdrawal<br>Liabilities | Total    |
|------------------------------|-------------------------------|---------------------------------|--------------------------------------|----------|
| Balance at December 31, 2006 | \$ —                          | \$ —                            | \$ —                                 | \$ —     |
| Accruals, net                | 3,899                         | 5,065                           | 2,092                                | 11,056   |
| Payments                     | (317)                         | (4,524)                         | —                                    | (4,841)  |
| Balance at December 31, 2007 | \$3,582                       | \$ 541                          | \$2,092                              | \$ 6,215 |

## 2005 Cost Savings and Restructuring Plan

In the fourth quarter of 2007, the senior management team of Cenvo completed the implementation of its 2005 cost savings and restructuring plan that it initiated in September 2005, including the consolidation of the Company's purchasing activities and manufacturing platform, corporate and field human resources reductions, streamlining information technology infrastructure and eliminating all discretionary spending. As a result of these actions, the Company reduced headcount by approximately 100 employees and closed and consolidated two commercial printing operations in 2007. The following tables and discussion present the details of the expenses recognized as a result of this plan in the three years ended December 31, 2007, 2006 and 2005.

## 2007 Activity

Restructuring and impairment charges for the year ended December 31, 2007 were as follows:

| (in thousands)                             | Envelopes,<br>Forms and<br>Labels | Commercial<br>Printing | Corporate | Total    |
|--|-----------------------------------|------------------------|-----------|----------|
| Employee separation costs                  | \$1,888                           | \$ 2,960               | \$251     | \$ 5,099 |
| Asset impairments, net of gain on sale     | (349)                             | 4,242                  | —         | 3,893    |
| Equipment moving expenses                  | 792                               | 554                    | —         | 1,346    |
| Lease termination expenses                 | (132)                             | 1,471                  | 112       | 1,451    |
| Building clean-up and other expenses       | 381                               | 3,394                  | 94        | 3,869    |
| Total restructuring and impairment charges | \$2,580                           | \$12,621               | \$457     | \$15,658 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**Envelopes, Forms and Labels.** The envelopes, forms and labels segment incurred employee separation costs of \$1.9 million related to workforce reductions, asset impairment charges related to equipment taken out of service, net of gain on sale, of \$(0.4) million, equipment moving expenses of \$0.8 million for the redeployment of equipment, lease termination income of \$(0.1) million and building clean-up and other expenses of \$0.4 million related to locations that were closed in 2006.

**Commercial Printing.** The commercial printing segment closed plants in Houston, Texas and Indianapolis, Indiana during 2007 and consolidated certain of their activities into other locations. As a result of these plant closures, the commercial printing segment incurred employee separation costs of \$3.0 million related to workforce reductions, asset impairment charges of \$4.2 million related to equipment taken out of service, equipment moving expenses of \$0.6 million, lease termination expenses of \$1.5 million and building clean-up and other expenses of \$3.4 million.

### 2006 Activity

During 2006, the Company reduced headcount by approximately 900 employees, consolidated seven manufacturing facilities and closed three printing operations.

Restructuring and impairment charges for the year ended December 31, 2006 are as follows:

| (in thousands)                             | Envelopes,<br>Forms and<br>Labels | Commercial<br>Printing | Corporate | Total    |
|--|-----------------------------------|------------------------|-----------|----------|
| Employee separation costs                  | \$ 6,746                          | \$11,663               | \$1,438   | \$19,847 |
| Asset impairments, net of gain on sale     | 2,697                             | 935                    | —         | 3,632    |
| Equipment moving expenses                  | 4,972                             | 1,398                  | —         | 6,370    |
| Lease termination expense (income), net    | 2,187                             | 2,104                  | (276)     | 4,015    |
| Building clean-up and other expenses       | 1,734                             | 5,460                  | 38        | 7,232    |
| Total restructuring and impairment charges | \$18,336                          | \$21,560               | \$1,200   | \$41,096 |

**Envelopes, Forms and Labels.** In 2006, the envelopes, forms and labels segment closed plants in Denver, Colorado, Chestertown, Maryland, Kankakee, Illinois, Phoenix, Arizona, Terre Haute, Indiana and Atlanta, Georgia and consolidated their activities into other plants and closed an office location. As a result of these closures, locations closed in the fourth quarter of 2005 and cost savings initiatives at other locations, the segment recorded employee separation costs of \$6.7 million related to workforce reductions, asset impairment charges of \$2.7 million, net of the gain on sale of a facility of \$1.9 million, and equipment moving expenses of \$5.0 million for the redeployment of equipment. In addition, the segment recorded lease termination expenses of \$2.2 million, representing the net present value of costs that were not expected to be recovered over the remaining terms of three leased facilities no longer in use and building clean-up and other expenses of \$1.7 million.

**Commercial Printing.** In 2006, the commercial printing segment closed plants in Denver, Colorado, Phoenix, Arizona, Cambridge, Maryland, Glen Burnie, Maryland and Fenton, Missouri. As a result of these closures, locations closed in the fourth quarter of 2005 and cost savings initiatives at other locations, the segment recorded employee separation costs of \$11.7 million related to workforce reductions, asset impairment charges of \$2.8 million, net of the gain on sale of a facility of \$(1.9) million, equipment moving expenses of \$1.4 million for the redeployment of equipment, lease termination expenses of \$2.1 million representing the net present value of costs that were not expected to be recovered over the remaining terms of three leased facilities no longer in use and building clean-up and other expenses of \$5.5 million.

**Corporate.** The Company incurred employee separation costs of \$1.4 million and recorded lease termination income of \$0.3 million resulting from adjusting its estimate of the net present value of the cost of the lease that is not expected to be recovered over its remaining life, upon subleasing its former corporate headquarters.

### 2005 Activity

The following table and discussion present the details of the expenses recognized in 2005 as a result of new senior management's cost savings plan, as well as, restructuring expenses incurred as a result of programs initiated by the Company prior to September 2005. As a result of these actions in 2005, the Company reduced headcount by approximately 1,900 employees, consolidated three manufacturing facilities and closed three printing facilities. In addition, the Company incurred charges during

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

2005 related to a special meeting of shareholders and the changes made to the board of directors and management. These expenses are also included in the table and the discussion that follow.

Restructuring, impairment and other charges for the year ended December 31, 2005 were as follows:

| (in thousands)                                    | Envelopes,<br>Forms and<br>Labels | Commercial<br>Printing | Corporate | Total     |
|---|-----------------------------------|------------------------|-----------|-----------|
| Employee separation costs                         | \$ 6,487                          | \$ 9,348               | \$10,572  | \$26,407  |
| Asset impairments                                 | 5,066                             | 20,340                 | 853       | 26,259    |
| Equipment moving expenses                         | 338                               | 454                    | —         | 792       |
| Lease termination expenses                        | 41                                | 1,586                  | 4,124     | 5,751     |
| Multi-employer pension withdrawal expenses        | 541                               | 409                    | —         | 950       |
| Building clean-up and other expenses              | 67                                | 313                    | —         | 380       |
| Total restructuring charges                       | 12,540                            | 32,450                 | 15,549    | 60,539    |
| Other charges                                     | —                                 | 3,917                  | 12,798    | 16,715    |
| Total restructuring, impairment and other charges | \$12,540                          | \$36,367               | \$28,347  | \$ 77,254 |

**Envelopes, Forms and Labels.** The envelopes, forms and labels segment closed plants in Philadelphia, Pennsylvania, Eugene, Oregon and Marshall, Texas. As a result of these plant closures, the segment recorded impairment charges of \$2.3 million for equipment taken out of service, employee separation costs of \$0.9 million, a pension withdrawal liability of \$0.5 million and equipment moving expenses of \$0.3 million to redeploy equipment.

For the plant closures planned in 2006, the segment incurred \$0.1 million in employee separation costs, recorded impairment charges of \$2.8 million related to equipment at these plants that it took out of service in 2006 and equipment moving expenses of \$0.1 million. The segment incurred employee separation costs of \$5.5 million at other locations relating to the Company's cost savings programs.

**Commercial Printing.** The commercial printing segment completed the merger of its two plants in Seattle, Washington and its two plants in San Francisco, California, which cost \$0.3 million. The segment closed two plants in Atlanta, Georgia and a plant in Waterbury, Connecticut and a small operation in Phoenix, Arizona. The segment recorded impairment charges of \$3.8 million for equipment taken out of service or sold for less than its carrying value. Employee separation costs incurred for these four plant closures were \$1.9 million. The cost incurred to redeploy equipment was \$0.4 million. In addition, during 2005, the segment ceased use of three leased buildings and recorded lease termination expenses of \$1.5 million.

For the planned plant closures in 2006, the segment recorded impairment charges of \$12.5 million related to the equipment at the plants that it took out of service or sold in 2006. The segment incurred withdrawal liabilities of \$0.4 million from several multi-employer pension plans in 2005 and employee separation costs of \$7.4 million at other locations relating to the Company's cost savings programs. In addition, new senior management terminated the implementation of a segment wide information system, for which a portion of the investment and other related information technology projects of \$3.9 million was written-off. Other charges recorded by the segment include the settlement of a legal matter and the cost of legal matters that were settled in 2006.

**Corporate.** In 2005, the Company made significant changes to its corporate management team and staff and moved its corporate headquarters from Denver, Colorado to Stamford, Connecticut. As a result, the Company incurred employee separation costs of \$10.6 million. In addition, in December 2005, the Company ceased use of office space in Denver and recorded a \$4.1 million charge representing the net present value of the cost of the lease that was not expected to be recovered over its remaining term and a \$0.9 million charge for the net book value of leasehold improvements and furniture and fixtures.

Other charges include the following:

- In April 2005, the Company engaged an investment banking firm as a financial advisor to assist the then current board of directors in its evaluation of the Company's strategic alternatives and incurred fees of \$3.2 million.
- Legal and other fees incurred in connection with the special meeting of shareholders of \$4.9 million.
- In January 2005, the Company's Chief Executive Officer resigned and the cost incurred as a result of this resignation was \$2.1 million.
- Under the Company's Long-Term Incentive Plan, the change in the board of directors in September 2005 constituted a change of control and accelerated the vesting of the restricted stock issued to certain executives. The compensation expense recognized by the Company as a result of the vesting of this restricted stock was \$2.6 million.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

A summary of the activity charged to the restructuring liabilities as a result of the 2005 cost savings and restructuring plan is as follows:

| (in thousands)               | Lease<br>Termination<br>Costs | Employee<br>Separation<br>Costs | Pension<br>Withdrawal<br>Liabilities | Total     |
|------------------------------|-------------------------------|---------------------------------|--------------------------------------|-----------|
| Balance at December 31, 2005 | \$ 6,067                      | \$ 3,734                        | \$ 950                               | \$ 10,751 |
| Accruals, net                | 4,015                         | 19,847                          | —                                    | 23,862    |
| Payments                     | (4,541)                       | (22,154)                        | (308)                                | (27,003)  |
| Balance at December 31, 2006 | 5,541                         | 1,427                           | 642                                  | 7,610     |
| Accruals, net                | 1,451                         | 5,099                           | —                                    | 6,550     |
| Payments                     | (3,099)                       | (4,463)                         | (345)                                | (7,907)   |
| Balance at December 31, 2007 | \$ 3,893                      | \$ 2,063                        | \$ 297                               | \$ 6,253  |

## 13. Stock-Based Compensation

The Company's 2007 Long-Term Equity Incentive Plan (the "2007 Plan") was approved in May 2007 and authorizes the issuance of 2,000,000 shares of the Company's common stock, no more than 1,500,000 of which may be issued with respect to restricted shares, restricted share units ("RSUs") or other stock-based awards. Any shares not used for these awards may be used for awards of stock options and stock appreciation rights. In addition, the plan authorizes cash performance awards. Upon approval of the 2007 Plan, the Company ceased making awards under its prior equity plans, including the Company's 2001 Long-Term Equity Incentive Plan. Unused shares previously authorized under prior plans have been rolled over into the 2007 Plan and increased the total number of shares authorized for issuance under the 2007 Plan by approximately 916,000 as of December 31, 2007.

The Company's outstanding unvested stock options have maximum contractual terms of up to ten years, principally vest ratably over four years and were granted at exercise prices equal to the market price of the Company's common stock on the date of grant. The Company's outstanding stock options are exercisable into shares of the Company's common stock. The Company's outstanding restricted shares vest ratably over four years. The Company has no outstanding stock appreciation rights. The Company's outstanding RSUs principally vest ratably over four years. Upon vesting, RSUs convert into shares of the Company's common stock. The Company currently issues authorized shares of common stock upon vesting of restricted shares or exercise of other equity awards.

Effective with the adoption of SFAS 123(R) on January 1, 2006, the Company measures the cost of employee services received in exchange for an award of equity instruments, including grants of employee stock options, restricted stock and restricted share units, based on the fair value of the award at the date of grant rather than its intrinsic value, the method the Company previously used in 2005 and prior. The Company is using the modified prospective application method under SFAS 123(R) and has elected not to use the retrospective application method. Thus, amortization of the fair value of all nonvested grants as of January 1, 2006, as determined under the previous pro forma disclosure provisions of SFAS 123, except as adjusted for estimated forfeitures, is included in the Company's results of operations commencing January 1, 2006, and prior periods have not been restated. As required under SFAS 123(R), the Company reversed the unearned compensation component of shareholders' deficit with an equal offsetting reduction of paid-in capital as of January 1, 2006 and is now increasing paid-in capital for share-based compensation costs recognized during the period. Additionally, effective with the adoption of SFAS 123(R), the Company recognizes share-based compensation expense net of estimated forfeitures, rather than as forfeitures occur as presented under the previous pro forma disclosure provisions of SFAS 123 subsequently set forth in this footnote. Employee stock compensation grants or grants modified, repurchased or cancelled on or after January 1, 2006 are valued in accordance with SFAS 123(R). Under SFAS 123(R), the Company has chosen (1) the Black-Scholes-Merton option pricing model (the "Black-Scholes Model") for purposes of determining the fair value of stock options granted commencing January 1, 2006 and (2) to continue recognizing compensation costs ratably over the requisite service period for each separately vesting portion of the award.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Total share-based compensation expense recognized in selling, general and administrative expenses in the Company's consolidated statements of operations was \$10.3 million, \$6.0 million and \$2.5 million for the years ended December 31, 2007, 2006 and 2005, respectively. Total share-based compensation expense recognized in restructuring, impairment and other charges in the Company's consolidated statements of operations was \$2.7 million in 2005.

As a result of adopting SFAS 123(R) on January 1, 2006, the Company's income from continuing operations before income taxes and net income in 2006 was \$3.3 million lower than if it had continued to account for share-based compensation under Accounting Principles Board Opinion 25 ("APB 25"). Basic and diluted income per share in 2006 was \$0.06 lower than if the Company had to account for share-based compensation under APB 25. Net cash used in operating and financing activities in 2006 were the same as if the Company had continued to account for share-based compensation under APB 25.

As of December 31, 2007, there was approximately \$36.9 million of total unrecognized compensation cost related to unvested share-based compensation grants, which is expected to be amortized over a weighted-average period of 2.0 years.

## Stock Options

A summary of the Company's outstanding stock options as of and for the year ended December 31, 2007 is as follows:

|                                  | Options          | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual Term<br>(In Years) | Aggregate<br>Intrinsic<br>Value <sup>(A)</sup><br>(in thousands) |
|----------------------------------|------------------|--|--|--|
| Outstanding at January 1, 2007   | 3,326,780        | \$ 14.71                                 |  |  |
| Granted                          | 780,000          | 17.89                                    |  |  |
| Exercised                        | (34,175)         | 8.92                                     |  | \$ 463   |
| Forfeited                        | (222,625)        | 18.84                                    |  |  |
| Outstanding at December 31, 2007 | <u>3,849,980</u> | 15.14                                    | 4.8  | <u>\$ 13,661</u>   |
| Exercisable at December 31, 2007 | <u>1,316,855</u> | 12.71                                    | 4.5  | <u>\$ 7,503</u>  |

<sup>(A)</sup> Intrinsic value for purposes of this table represents the amount by which the fair value of the underlying stock, based on the respective market prices at December 31, 2007 or, if exercised, the exercise dates, exceeds the exercise prices of the respective options.

A summary of the Company's outstanding stock options as of and for the year ended December 31, 2006 is as follows:

|                                  | Options          | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual Term<br>(In Years) | Aggregate<br>Intrinsic<br>Value <sup>(A)</sup><br>(in thousands) |
|----------------------------------|------------------|--|--|--|
| Outstanding at January 1, 2006   | 2,365,961        | \$ 8.95                                  |  |  |
| Granted                          | 1,570,000        | 20.55                                    |  |  |
| Exercised                        | (329,814)        | 6.03                                     |  | \$ 3,479   |
| Forfeited                        | (279,367)        | 8.99                                     |  |  |
| Outstanding at December 31, 2006 | <u>3,326,780</u> | 14.71                                    | 5.7  | <u>\$ 21,589</u>   |
| Exercisable at December 31, 2006 | <u>549,280</u>   | 9.32                                     | 5.4  | <u>\$ 6,529</u>  |

<sup>(A)</sup> Intrinsic value for purposes of this table represents the amount by which the fair value of the underlying stock, based on the respective market prices at December 31, 2006 or, if exercised, the exercise dates, exceeds the exercise prices of the respective options.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The following table summarizes the activity of stock options for the year ended December 31, 2005:

|  | Options     | Weighted<br>Average<br>Exercise<br>Price |
|--|-------------|--|
| Options outstanding at beginning of year | 6,868,100   | \$5.55                                   |
| Granted                                  | 2,308,000   | 9.17                                     |
| Exercised                                | (4,661,854) | 4.82                                     |
| Expired/cancelled                        | (2,148,285) | 7.06                                     |
| Options outstanding at December 31, 2005 | 2,365,961   | 8.97                                     |
| Options exercisable at December 31, 2005 | 535,961     | 6.83                                     |

The total intrinsic value of stock options exercised during 2005 was approximately \$19.5 million.

The weighted-average grant date fair value of stock options granted during the three years ended December 31, 2007, at exercise prices equal to the market price of the stock on the grant dates, as calculated under the Black-Scholes Model with the weighted-average assumptions are as follows:

|  | 2007    | 2006    | 2005    |
|--|---------|---------|---------|
| Weighted average fair value of option grants during the year | \$ 6.31 | \$ 9.56 | \$ 5.08 |
| Assumptions:   |         |         |         |
| Expected option life in years                                | 4.25    | 4.27    | 4.81    |
| Risk-free interest rate                                      | 4.05%   | 4.75%   | 4.40%   |
| Expected volatility  | 0.363   | 0.516   | 0.624   |
| Expected dividend yield                                      | 0.0%    | 0.0%    | 0.0%    |

The risk-free interest rate represents the U.S. Treasury Bond constant maturity yield approximating the expected option life of stock options granted during the period. The expected option life represents the period of time that the stock options granted during the period are expected to be outstanding, based on the mid-point between the vesting date and contractual expiration date of the option. The expected volatility is based on the historical market price volatility of the Company's common stock for the expected term of the options, adjusted for expected mean reversion.

## Restricted Shares and RSUs

A summary of the Company's nonvested restricted shares and RSUs as of and for the three years ended December 31, 2007 is as follows:

|                                  | Restricted<br>Shares | Weighted<br>Average<br>Grant Date<br>Fair Value | RSUs      | Weighted<br>Average<br>Grant Date<br>Fair Value |
|----------------------------------|----------------------|---|-----------|---|
| Outstanding at January 1, 2005   | 932,788              | \$4.40  | —         | —   |
| Granted                          | 485,680              | 8.47  | 236,600   | \$9.69  |
| Vested                           | (739,449)            | 5.48  | —         | —   |
| Forfeited                        | (479,019)            | 4.72  | —         | —   |
| Outstanding at December 31, 2005 | 200,000              | 9.52  | 236,600   | 9.69  |
| Granted                          | —                    | —   | 532,150   | 20.55   |
| Vested                           | (50,000)             | 9.52  | (141,600) | 9.81  |
| Forfeited                        | —                    | —   | (20,000)  | 9.52  |
| Outstanding at December 31, 2006 | 150,000              | 9.52  | 607,150   | 19.19   |
| Granted                          | —                    | —   | 761,750   | 17.89   |
| Vested                           | (50,000)             | 9.52  | (173,900) | 20.55   |
| Forfeited                        | —                    | —   | (62,850)  | 18.97   |
| Outstanding at December 31, 2007 | 100,000              | 9.52  | 1,132,150 | 18.36   |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The total fair value of restricted shares and RSUs which vested during 2007 was \$0.9 million and \$3.1 million, respectively, as of the respective vesting dates. The total fair value of restricted shares and RSUs which vested during 2006 was \$1.0 million and \$2.9 million, respectively, as of the respective vesting dates.

### 2005 Pro Forma Information

The accompanying consolidated statements of operations for 2005 were not restated since the Company elected not to use the retrospective application method under SFAS 123(R). A summary of the effect on net loss and net loss per share for 2005 as if the Company had applied the fair value recognition provisions of SFAS 123 to share-based compensation for all outstanding and nonvested stock options (calculated using the Black-Scholes Model) and restricted shares is as follows:

| <u>(in thousands, except per share data)</u>   | <u>2005</u> |
|--|-------------|
| Net loss as reported   | \$135,052   |
| Reversal of share-based compensation expense determined<br>under the intrinsic value method included in net loss, net of taxes | (2,505)     |
| Recognition of share-based compensation expense determined<br>under the fair value method, net of taxes                        | 8,962       |
| Pro forma net loss   | \$141,509   |
| Net loss per share—basic and diluted:  |             |
| As reported  | \$ 2.70     |
| Pro forma  | \$ 2.83     |

Under the Plan, the change in the Company's board of directors on September 12, 2005, triggered the change of control provision of the Plan. Accordingly, all outstanding stock options and restricted stock vested on September 12, 2005. The amount of stock-based compensation expense reflected in the pro forma calculation of net loss per share for 2005 is primarily the result of the acceleration in the vesting of the outstanding stock options and restricted stock.

The Black-Scholes Model has limitations on its effectiveness including that it was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable and that the model requires the use of parameters, such as stock price volatility that must be estimated from historical data. The Company's stock option awards to employees have characteristics significantly different from those of traded options and parameter estimation methodologies can materially affect fair value estimates.

In November 2005, the FASB issued FASB Staff Position ("FSP"), No. 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. FSP No. 123(R)-3 provides an elective alternative method that establishes a computational component to arrive at the beginning balance of the paid-in capital pool related to employee compensation and a simplified method to determine the subsequent impact on the paid-in capital pool of employee awards that are fully vested and outstanding upon the adoption of SFAS 123(R). This election is not available for adoption until January 1, 2007. The Company has determined not to use the alternative method.

**14. Retirement Plans**

**Savings Plan.** The Company sponsors a defined contribution plan to provide substantially all U.S. salaried and certain hourly employees an opportunity to accumulate personal funds for their retirement. In 2007 and 2006, the Company only matched certain union employee's voluntary contributions and contributions required under the purchase agreements related to the 2007 Acquisitions. In 2005, the Company matched a certain percentage of each employee's voluntary contribution. All contributions made by the Company were made in cash and allocated pro-rata to the funds selected by the employee. Company contributions to the plan were approximately \$1.1 million in 2007, \$0.4 million in 2006 and \$6.0 million in 2005. The plan held 2,024,442 shares of the Company's common stock at December 31, 2007.

**Pension Plans.** The Company currently maintains pension plans for certain of its employees in the U.S. under collective bargaining agreements with unions representing these employees. The Company expects to continue to fund these plans based on governmental requirements, amounts deductible for income tax purposes and as needed to ensure that plan assets are sufficient to satisfy plan liabilities.

In connection with the acquisition of Cadmus, the Company assumed certain defined benefit pension plans, including participation in one multi-employer retirement plan that provides defined benefits to associates covered by two collective bargaining agreements. The defined benefit plans provide benefit payments using formulas based on an associate's compensation and length of service, or stated amounts for each year of service. Prior to the Company's acquisition of Cadmus, the benefits under the Cadmus pension plans, except for one plan, were frozen to mitigate the volatility in pension expense and required cash contributions expected in future years. The Cadmus pension plans were under-funded by approximately \$37.5 million as of the acquisition date (Note 3).

**Supplemental Executive Retirement Plans.** As a result of an acquisition in 2000 and the acquisition of Cadmus in 2007, the Company assumed responsibility for supplemental executive retirement plans ("SERP"), which provide benefits to certain former directors and executives. For accounting purposes, these plans are unfunded; however, the predecessor company had purchased annuities, which are included in other assets, net in the consolidated balance sheets. These annuities cover a portion of the liability to the participants in these plans and the income from the annuities offsets a portion of the cost of the plans.

**Other Postretirement Plans.** Cadmus also maintained separate postretirement benefit plans (medical and life insurance ("OPEB")) for certain of its former associates. Certain Cadmus associates are eligible for retiree medical coverage for themselves and their spouses if they retire on or after reaching age 55 with ten or more years of service. Benefits differ depending upon the date of retirement. The Cadmus postretirement plans were under-funded by approximately \$2.7 million as of the acquisition date (Note 3).

In September 2006, the FASB issued SFAS 158. This standard requires an employer to: (i) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (ii) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (iii) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. These changes will be reported in accumulated other comprehensive income. For the Company, the requirement to recognize the funded status of its benefit plans and the disclosure requirements became effective as of December 31, 2006. The Company's current measurement date is the date of its fiscal year end; therefore, the measurement date requirement under SFAS 158 had no impact on the Company. In 2007, the Company has recognized changes in the funded status, which occurs through accumulated other comprehensive income on its consolidated balance sheet.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The effect of applying SFAS 158 on the accompanying consolidated balance sheet as of December 31, 2006, was:

| (in thousands)                                       | Before Application<br>of SFAS 158 | Effect of Applying<br>SFAS 158 | After Application<br>of SFAS 158 |
|--|-----------------------------------|--------------------------------|----------------------------------|
| Other assets, net                                    | \$ 34,327                         | \$ (42)                        | \$ 34,285                        |
| Total assets   | 999,934                           | (42)                           | 999,892                          |
| Other liabilities                                    | 41,145                            | 405                            | 41,550                           |
| Accumulated other comprehensive income               | 3,111                             | (363)                          | 2,748                            |
| Total shareholders' equity (deficit)                 | 58,820                            | (363)                          | 58,457                           |
| Total liabilities and shareholders' equity (deficit) | 999,934                           | (42)                           | 999,892                          |

The following table sets forth the financial status of the Company's U.S. pension plans and the SERP including plans acquired as a result of the acquisition of Cadmus, and the amounts recognized in the consolidated balance sheets as of December 31, 2007 and 2006.

|   | Pension Plans |           | SERPs      |           | OPEB      |
|---|---------------|-----------|------------|-----------|-----------|
| (in thousands)  | 2007          | 2006      | 2007       | 2006      | 2007      |
| Change in projected benefit obligation:                     |               |           |            |           |           |
| Benefit obligation at beginning of year                     | \$ 11,531     | \$11,888  | \$ 8,463   | \$ 8,023  | \$ —      |
| Projected benefit obligation assumed from acquisitions      | 141,970       | —         | 9,206      | —         | 2,641     |
| Service cost  | 413           | 169       | —          | —         | —         |
| Interest cost   | 7,605         | 668       | 1,002      | 1,393     | 124       |
| Participant contributions                                   | —             | —         | —          | —         | —         |
| Actuarial (gain) loss                                       | 342           | (559)     | 760        | —         | (99)      |
| Foreign currency translation                                | —             | —         | —          | —         | —         |
| Benefits paid   | (6,068)       | (635)     | (2,216)    | (953)     | (241)     |
| Benefit obligation at end of year                           | \$155,793     | \$11,531  | \$ 17,215  | \$ 8,463  | \$ 2,425  |
| Change in plan assets:                                      |               |           |            |           |           |
| Fair value of plan assets at beginning of year              | \$ 9,522      | \$8,596   | \$ —       | \$ —      | \$ —      |
| Fair value of plan assets assumed from acquisitions         | 113,701       | —         | —          | —         | —         |
| Actual return on plan assets                                | 7,056         | 1,022     | —          | —         | —         |
| Participant contributions                                   | —             | —         | —          | —         | —         |
| Employer contributions                                      | 8,778         | 539       | 2,216      | —         | 241       |
| Foreign currency translation                                | —             | —         | —          | —         | —         |
| Benefits paid   | (6,068)       | (635)     | (2,216)    | —         | (241)     |
| Fair value of plan assets at end of year                    | 132,989       | 9,522     | —          | —         | —         |
| Funded status   | \$(22,804)    | \$(2,009) | \$(17,215) | \$(8,463) | \$(2,425) |
| Amounts recognized in accumulated other comprehensive loss: |               |           |            |           |           |
| Net actuarial loss  | \$ 4,720      | \$(3,320) | \$ 760     | \$ —      | \$ (99)   |
| Prior service cost  | 26            | (34)      | —          | —         | —         |
| Total   | \$ 4,746      | \$(3,354) | \$ 760     | \$ —      | \$ (99)   |
| Amounts recognized in the consolidated balance sheets:      |               |           |            |           |           |
| Other assets  | \$ —          | \$ —      | \$ —       | \$ —      | \$ —      |
| Total assets  | —             | —         | —          | —         | —         |
| Current liabilities   | —             | —         | 1,940      | 985       | 287       |
| Long-term liabilities                                       | 22,804        | 2,009     | 15,275     | 7,478     | 2,138     |
| Total liabilities   | \$ 22,804     | \$ 2,009  | \$ 17,215  | \$ 8,463  | \$ 2,425  |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The components of the net periodic pension expense for the U.S. pension, SERP and OPEB plans for the years ended December 31, was as follows:

| (in thousands)                                | 2007     | 2006    | 2005   |
|---|----------|---------|--------|
| Service cost                                  | \$ 413   | \$ 169  | \$ 173 |
| Interest cost on projected benefit obligation | 8,731    | 2,061   | 1,196  |
| Expected return on plan assets                | (8,339)  | (703)   | (710)  |
| Net amortization and deferral                 | 8        | 8       | 8      |
| Recognized actuarial loss                     | 224      | 267     | 200    |
| Net periodic pension expense                  | \$ 1,037 | \$1,802 | \$ 867 |

The assumptions used in computing the net pension expense and the funded status were as follows:

|   | 2007  | 2006  | 2005       |
|---|-------|-------|------------|
| Weighted average discount rate              | 6.00% | 6.00% | 5.50-5.75% |
| Expected long-term rate of return on assets | 8.00% | 8.00% | 8.00%      |
| Rate of compensation increase               | 4.00% | 4.00% | 3.50-4.00% |

The discount rate assumption used to determine the Company's pension obligations at December 31, 2007 takes into account the cash flow benefit and the yields on high-quality corporate bonds that would be available to provide for the payment of the cash flow benefit. The ultimate rate is developed by calculating the weighted average duration of the benefit liabilities and matching that to the average yield as of December 31, 2007 on corporate Aa-rated bonds with the same duration.

The discount rate assumption used to determine the Company's pension obligations at December 31, 2006, was based on a yield curve, with the result rounded to the nearest 0.25%. The yield curve was designed to provide a means to value the obligations of pension plans or postretirement benefit plans. The yield curve is a hypothetical double-A yield curve represented by a series of annualized individual discount rates. Each bond issue underlying the yield curve is required to have a credit rating of Aa or better by Moody's Investor Service, Inc. or a credit rating of AA or better by Standard & Poor's. The discount rate assumptions for the pension expenses in 2006 and the obligations at December 31, 2006 and 2005 were also based on the yield curve.

The expected long-term rate of return on plan assets of 8.0% is based on historical returns and the expectations for future returns for each asset class in which plan assets are invested as well as the target asset allocation of the investments of the plan assets.

The range of asset allocations and the target allocations for the investments as of December 31, were as follows:

|                                 | U.S. Plans |      |        |
|---------------------------------|------------|------|--------|
|                                 | 2007       | 2006 | Target |
| Equity securities               | 56-75%     | 67%  | 68%    |
| Debt securities, including cash | 14-35%     | 27%  | 27%    |
| Real estate                     | 4-11%      | 6%   | 5%     |
|                                 | 100%       | 100% | 100%   |

The Company's investment objective is to maximize the long-term return on the pension plan assets within prudent levels of risk. Investments are diversified with a blend of equity and fixed income securities. Equity investments are diversified by including U.S. and non-U.S. stocks, growth stocks, value stocks and stocks of large and small companies.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the plans with accumulated benefit obligations in excess of plan assets as of December 31, were as follows:

| (in thousands)                 | <b>U.S. Plans</b> |             |
|--------------------------------|-------------------|-------------|
|                                | <b>2007</b>       | <b>2006</b> |
| Projected benefit obligation   | <b>\$173,008</b>  | \$11,531    |
| Accumulated benefit obligation | <b>172,365</b>    | 11,202      |
| Fair value of plan assets      | <b>132,989</b>    | 9,522       |

The Company expects to contribute approximately \$10.0 million to its pension plans and approximately \$1.0 million to its SERP plans in 2008.

The estimated pension benefit payments expected to be paid by the pension plans and the estimated SERP and OPEB payments expected to be paid by the Company for the years 2008 through 2012, and in the aggregate for the years 2013 through 2017, are as follows:

| (in thousands) | <b>Pension Plans</b> | <b>SERP</b> | <b>OPEB</b> |
|----------------|----------------------|-------------|-------------|
| 2008           | \$ 8,036             | \$1,895     | \$295       |
| 2009           | 8,331                | 1,869       | 276         |
| 2010           | 8,481                | 1,729       | 260         |
| 2011           | 8,621                | 1,656       | 242         |
| 2012           | 8,924                | 1,751       | 224         |
| 2013 – 2017    | 48,150               | 7,028       | 928         |

Certain other U.S. employees are included in multi-employer pension plans to which the Company makes contributions in accordance with contractual union agreements. Such contributions are made on a monthly basis in accordance with the requirements of the plans and the actuarial computations and assumptions of the administrators of the plans. Contributions to multi-employer plans were \$3.7 million in 2007, \$3.1 million in 2006 and \$3.2 million in 2005. In 2007 and 2005, the Company recorded withdrawal liabilities of \$2.1 million and \$1.0 million, respectively, from certain multi-employer pension plans that were incurred in connection with its restructuring program (Note 12).

**15. Commitments and Contingencies**

**Leases.** The Company leases buildings and equipment under operating lease agreements expiring at various dates through 2018 (Note 12). Certain leases include renewal and purchase options. As of December 31, 2007, future minimum annual payments under non-cancelable lease agreements with original terms in excess of one year were as follows:

| (in thousands) |                  |
|----------------|------------------|
| 2008           | \$ 34,944        |
| 2009           | 27,555           |
| 2010           | 21,251           |
| 2011           | 16,613           |
| 2012           | 12,833           |
| Thereafter     | 33,514           |
| <b>Total</b>   | <b>\$146,710</b> |

Aggregate future minimum rentals to be received under non-cancelable subleases as of December 31, 2007 are approximately \$0.3 million.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Rent expense was \$43.4 million in 2007, \$36.1 million in 2006 and \$39.3 million in 2005.

**Concentrations of Credit Risk.** The Company has limited concentrations of credit risk with respect to financial instruments. Temporary cash investments and other investments are placed with high credit quality institutions, and concentrations within accounts receivable are generally limited due to the Company's customer base and its dispersion across different industries and geographic areas.

**Letters of Credit.** As of December 31, 2007, the Company had outstanding letters of credit of approximately \$24.6 million and a de minimis amount of surety bonds related to performance and payment guarantees. Based on the Company's experience with these arrangements, it does not believe that any obligations that may arise will be significant.

**Litigation.** The Company is party to various legal actions that are ordinary and incidental to its business. While the outcome of pending legal actions cannot be predicted with certainty, management believes the outcome of these various proceedings will not have a material adverse effect on the Company's consolidated financial condition or results of operations (Note 12).

**Tax Audits.** The Company's income, sales and use, and other tax returns are routinely subject to audit by various authorities. The Company believes that the resolution of any matters raised during such audits will not have a material adverse effect on the Company's financial position or its results of operations (Note 11).

### 16. Accumulated Other Comprehensive Income

Accumulated other comprehensive (loss) income was as follows:

| (in thousands)   | December 31, |          |
|--|--------------|----------|
|  | 2007         | 2006     |
| Currency translation adjustments                                   | \$ 8,595     | \$ 7,945 |
| Unrealized loss on cash flow hedges, net of tax benefit of \$4,986 | (10,772)     | (2,992)  |
| Pension liability adjustments, net of tax expense of \$1,294       | (4,336)      | (2,205)  |
| Accumulated other comprehensive (loss) income                      | \$ (6,513)   | \$ 2,748 |

As of December 31, 2007, the Company had a liability of \$15.8 million relating to the unrealized loss on cash flow hedges which is included in other liabilities in the consolidated balance sheet (Note 10). In connection with the sale of its remaining investment in the Fund on March 13, 2007 (Note 4), the Company reclassified \$5.5 million of currency translation adjustment into discontinued operations from other comprehensive income. In connection with the sale of Supremex in 2006, the Company reclassified into discontinued operations from other comprehensive income \$6.0 million of a minimum pension liability adjustment and \$16.0 million of currency translation adjustment.

### 17. Income (Loss) Per Share

Basic income (loss) per share is computed based upon the weighted average number of common shares outstanding for the period. Diluted income (loss) per share reflects the potential dilution that could occur if options, restricted stock and RSUs ("equity awards") to issue common stock were exercised under the treasury stock method. The only Company securities as of December 31, 2007 that could dilute basic income per share for periods subsequent to December 31, 2007, that were not included in the computation of diluted earnings per share are (1) outstanding stock options which are exercisable into 3,054,084 shares of the Company's common stock and (2) 966,994 shares of restricted stock and RSUs.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

The following table sets forth the computation of basic and diluted income (loss) per share for the years ended December 31:

| (in thousands, except per share data)                    | 2007     | 2006       | 2005         |
|--|----------|------------|--------------|
| Numerator for basic and diluted income (loss) per share: |          |            |              |
| Income (loss) from continuing operations                 | \$23,985 | \$(11,148) | \$ (148,101) |
| Income from discontinued operations, net of taxes        | 16,796   | 126,519    | 13,049       |
| Net income (loss)  | \$40,781 | \$115,371  | \$(135,052)  |
| Denominator weighted average common shares outstanding:  |          |            |              |
| Basic shares   | 53,584   | 53,288     | 50,038       |
| Dilutive effect of equity awards                         | 1,061    | —          | —            |
| Diluted shares   | 54,645   | 53,288     | 50,038       |
| Income (loss) per share – basic:                         |          |            |              |
| Continuing operations                                    | \$ 0.45  | \$ (0.21)  | \$ (2.96)    |
| Discontinued operations                                  | 0.31     | 2.38       | 0.26         |
| Net income (loss)  | \$ 0.76  | \$ 2.17    | \$ (2.70)    |
| Income (loss) per share - diluted:                       |          |            |              |
| Continuing operations                                    | \$ 0.44  | \$ (0.21)  | \$ (2.96)    |
| Discontinued operations                                  | 0.31     | 2.38       | 0.26         |
| Net income (loss)  | \$ 0.75  | \$ 2.17    | \$ (2.70)    |

**18. Related Party Transactions**

In 2005, a group of shareholders called for a special meeting of shareholders to elect a new board of directors. On September 9, 2005, the shareholder group and the board of directors of the Company reached an agreement pursuant to which the board of directors was reconstituted and a new Chairman and Chief Executive Officer was appointed effective September 12, 2005. In 2005, the Company reimbursed Burton Capital Management, LLC \$0.8 million for expenses incurred in its efforts to elect a new board of directors. The Company's Chairman and Chief Executive Officer is also the Chairman, Chief Executive Officer and Managing Member of Burton Capital Management, LLC.

**19. Segment Information**

The Company operates in two segments: the envelopes, forms and labels segment and the commercial printing segment. The envelopes, forms and labels segment specializes in the design, manufacturing and printing of: (1) custom and direct mail envelopes developed for the advertising, billing and remittance needs of a variety of customers, including financial services companies; (2) custom labels and specialty forms sold through an extensive network of resale distributors for industries including food and beverage, manufacturing and pharmacy chains; and (3) stock envelopes, labels and business forms generally sold to independent distributors, office-products suppliers and office-products retail chains. The commercial printing segment provides print, design and content management offerings, including: (1) high-end printed materials, which includes a wide range of premium products for major national and regional customers; (2) general commercial printing products for regional and local customers; (3) scientific, technical and medical journals and special interest and trade magazines for non-profit organizations, educational institutions and specialty publishers; and (4) specialty packaging and high quality promotional materials for multinational consumer products companies.

Operating income of each segment includes substantially all costs and expenses directly related to the segment's operations. Corporate expenses include corporate general and administrative expenses (Note 13).

Corporate identifiable assets primarily consist of cash and cash equivalents, miscellaneous receivables, deferred financing fees, deferred tax assets and other assets.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Summarized financial information concerning the reportable segments as of and for the years ended December 31, is as follows:

| (in thousands)                                     | 2007         | 2006         | 2005         |
|--|--------------|--------------|--------------|
| Net sales:   |              |              |              |
| Envelopes, Forms and Labels                        | \$ 897,722   | \$ 780,696   | \$ 767,403   |
| Commercial Printing                                | 1,148,994    | 730,528      | 827,378      |
| Total  | \$ 2,046,716 | \$ 1,511,224 | \$ 1,594,781 |
| Operating income (loss):                           |              |              |              |
| Envelopes, Forms and Labels                        | \$ 117,342   | \$ 82,753    | \$ 51,830    |
| Commercial Printing                                | 55,085       | 13,606       | (30,675)     |
| Corporate  | (34,877)     | (32,964)     | (47,465)     |
| Total  | \$ 137,550   | \$ 63,395    | \$ (26,310)  |
| Restructuring, asset impairment and other charges: |              |              |              |
| Envelopes, Forms and Labels                        | \$ 11,350    | \$ 18,336    | \$ 12,540    |
| Commercial Printing                                | 28,279       | 21,560       | 36,367       |
| Corporate  | 457          | 1,200        | 28,347       |
| Total  | \$ 40,086    | \$ 41,096    | \$ 77,254    |
| Significant noncash charges (credits):             |              |              |              |
| Envelopes, Forms and Labels                        | \$ 3,640     | \$ 6,880     | \$ 5,107     |
| Commercial Printing                                | 16,089       | 3,821        | 21,926       |
| Corporate  | —            | (355)        | 4,977        |
| Total  | \$ 19,729    | \$ 10,346    | \$ 32,010    |
| Depreciation and intangible asset amortization:    |              |              |              |
| Envelopes, Forms and Labels                        | \$ 21,015    | \$ 16,438    | \$ 17,728    |
| Commercial Printing                                | 43,346       | 23,567       | 29,978       |
| Corporate  | 1,147        | 688          | 542          |
| Total  | \$ 65,508    | \$ 40,693    | \$ 48,248    |
| Capital expenditures:                              |              |              |              |
| Envelopes, Forms and Labels                        | \$ 5,145     | \$ 4,837     | \$ 3,884     |
| Commercial Printing                                | 24,546       | 12,974       | 23,065       |
| Corporate  | 1,847        | 2,119        | 1,205        |
| Total  | \$ 31,538    | \$ 19,930    | \$ 28,154    |
| Net sales by product line:                         |              |              |              |
| Envelopes  | \$ 604,351   | \$ 582,460   | \$ 594,327   |
| Commercial Printing                                | 823,195      | 727,611      | 812,194      |
| Journals and Periodicals                           | 323,370      | —            | —            |
| Labels and Business Forms                          | 295,800      | 201,153      | 188,260      |
| Total  | \$ 2,046,716 | \$ 1,511,224 | \$ 1,594,781 |
| Intercompany sales:                                |              |              |              |
| Envelopes, Forms and Labels to Commercial Printing | \$ 8,802     | \$ 13,254    | \$ 12,629    |
| Commercial Printing to Envelopes, Forms and Labels | 6,985        | 15,855       | 19,977       |
| Total  | \$ 15,787    | \$ 29,109    | \$ 32,606    |

December 31,

| (in thousands)              | 2007         | 2006       |
|-----------------------------|--------------|------------|
| Identifiable assets:        |              |            |
| Envelopes, Forms and Labels | \$ 833,337   | \$ 494,321 |
| Commercial Printing         | 1,105,832    | 393,954    |
| Corporate                   | 63,553       | 111,617    |
| Total                       | \$ 2,002,722 | \$ 999,892 |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

Geographic information as of and for the years ended December 31, is as follows:

| (in thousands) | 2007        | 2006        | 2005        |
|----------------|-------------|-------------|-------------|
| Net sales:     |             |             |             |
| U.S.           | \$1,961,505 | \$1,452,453 | \$1,535,281 |
| Foreign        | 85,211      | 58,771      | 59,500      |
| Total          | \$2,046,716 | \$1,511,224 | \$1,594,781 |

| (in thousands)  | 2007        | 2006      |
|---|-------------|-----------|
| Long-lived assets (property plant and equipment and intangible assets): |             |           |
| U.S.  | \$1,335,213 | \$517,018 |
| Foreign   | 33,552      | 29,918    |
| Total   | \$1,368,765 | \$546,936 |

**20. Condensed Consolidating Financial Information**

Cenveo is a holding company ("Parent Company"), which is the ultimate parent of all Cenveo subsidiaries. In January 2004, the Company's wholly owned subsidiary, Cenveo Corporation (the "Subsidiary Issuer"), issued 7½% Notes and, in connection with the acquisition of Cadmus, assumed Cadmus' 8½% Notes (the "Subsidiary Issuer Notes"), which are fully and unconditionally guaranteed, on a joint and several basis, by the Parent Company and substantially all of its wholly-owned subsidiaries (the "Guarantor Subsidiaries").

Presented below is condensed consolidating information for the Parent Company, the Subsidiary Issuer, the Guarantor Subsidiaries and Non-Guarantor Subsidiaries for the three years ended December 31, 2007. The condensed consolidating financial information has been presented to show the nature of assets held, results of operations and cash flows of the Parent Company, the Subsidiary Issuer, the Guarantor Subsidiaries and Non-Guarantor Subsidiaries, assuming the guarantee structure of the Subsidiary Issuer Notes was in effect at the beginning of the periods presented.

The supplemental condensed consolidating financial information reflects the investments of the Parent Company in the Subsidiary Issuer, the Guarantor Subsidiaries and Non-Guarantor Subsidiaries using the equity method of accounting. The Company's primary transactions with its subsidiaries other than the investment account and related equity in net income (loss) of unconsolidated subsidiaries are the intercompany payables and receivables between its subsidiaries.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## CENVEO, INC. AND SUBSIDIARIES

### CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2007

| (in thousands)                               | Parent<br>Company | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations   | Consolidated |
|--|-------------------|----------------------|---------------------------|-----------------------------------|----------------|--------------|
| <b>Assets</b>                                |                   |                      |                           |                                   |                |              |
| Current assets:                              |                   |                      |                           |                                   |                |              |
| Cash and cash equivalents                    | \$ —              | \$ 13,091            | \$ 882                    | \$ 1,909                          | \$ —           | \$ 15,882    |
| Accounts receivable, net                     | —                 | 164,815              | 175,746                   | 4,073                             | —              | 344,634      |
| Inventories                                  | —                 | 89,259               | 72,782                    | 867                               | —              | 162,908      |
| Notes receivable from subsidiaries           | —                 | 40,108               | —                         | —                                 | (40,108)       | —            |
| Prepaid and other current assets             | —                 | 57,484               | 15,160                    | 714                               | —              | 73,358       |
| Total current assets                         | —                 | 364,757              | 264,570                   | 7,563                             | (40,108)       | 596,782      |
| Investment in subsidiaries                   | 99,326            | 1,461,662            | 2,058                     | —                                 | (1,563,046)    | —            |
| Property, plant and equipment, net           | —                 | 173,103              | 254,378                   | 860                               | —              | 428,341      |
| Goodwill                                     | —                 | 175,220              | 494,582                   | —                                 | —              | 669,802      |
| Other intangible assets, net                 | —                 | 9,512                | 261,110                   | —                                 | —              | 270,622      |
| Other assets, net                            | —                 | 22,949               | 13,833                    | 393                               | —              | 37,175       |
| Total assets                                 | \$ 99,326         | \$ 2,207,203         | \$ 1,290,531              | \$ 8,816                          | \$ (1,603,154) | \$ 2,002,722 |
| <b>Liabilities and Shareholders' Equity</b>  |                   |                      |                           |                                   |                |              |
| Current liabilities:                         |                   |                      |                           |                                   |                |              |
| Current maturities of long-term debt         | \$ —              | \$ 8,769             | \$ 9,983                  | \$ —                              | \$ —           | \$ 18,752    |
| Accounts payable                             | —                 | 98,111               | 65,130                    | 2,217                             | —              | 165,458      |
| Accrued compensation and related liabilities | —                 | 23,792               | 23,361                    | —                                 | —              | 47,153       |
| Other current liabilities                    | —                 | 57,845               | 20,495                    | 1,214                             | —              | 79,554       |
| Intercompany payable (receivable)            | —                 | 479,191              | (482,518)                 | 3,327                             | —              | —            |
| Notes payable to issuer                      | —                 | —                    | 40,108                    | —                                 | (40,108)       | —            |
| Total current liabilities                    | —                 | 667,708              | (323,441)                 | 6,758                             | (40,108)       | 310,917      |
| Long-term debt                               | —                 | 1,400,620            | 25,265                    | —                                 | —              | 1,425,885    |
| Deferred income tax liability (asset)        | —                 | (17,162)             | 72,343                    | —                                 | —              | 55,181       |
| Other liabilities                            | —                 | 56,711               | 54,702                    | —                                 | —              | 111,413      |
| Shareholders' equity                         | 99,326            | 99,326               | 1,461,662                 | 2,058                             | (1,563,046)    | 99,326       |
| Total liabilities and shareholders' equity   | \$ 99,326         | \$ 2,207,203         | \$ 1,290,531              | \$ 8,816                          | \$ (1,603,154) | \$ 2,002,722 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## CENVED, INC. AND SUBSIDIARIES

### CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the year ended December 31, 2007

| (in thousands)  | Parent<br>Company | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|-------------------|----------------------|---------------------------|-----------------------------------|--------------|--------------|
| Net sales   | \$ —              | \$1,162,075          | \$ 872,947                | \$ 11,694                         | \$ —         | \$ 2,046,716 |
| Cost of sales   | —                 | 954,373              | 665,472                   | 8,861                             | —            | 1,628,706    |
| Selling, general and administrative   | —                 | 164,620              | 64,907                    | 434                               | —            | 229,961      |
| Amortization of intangible assets   | —                 | 4,826                | 5,587                     | —                                 | —            | 10,413       |
| Restructuring and impairment charges  | —                 | 39,956               | 130                       | —                                 | —            | 40,086       |
| Operating income (loss)   | —                 | (1,700)              | 136,851                   | 2,399                             | —            | 137,550      |
| Gain on sale of non-strategic businesses  | —                 | (189)                | —                         | —                                 | —            | (189)        |
| Interest expense, net   | —                 | 90,070               | 1,411                     | (14)                              | —            | 91,467       |
| Intercompany interest expense (income)  | —                 | (3,598)              | 3,598                     | —                                 | —            | —            |
| Loss on early extinguishment of debt  | —                 | 9,186                | 70                        | —                                 | —            | 9,256        |
| Other expense, net  | —                 | 1,091                | 1,681                     | 359                               | —            | 3,131        |
| Income (loss) from continuing<br>operations before income taxes<br>and equity in income of<br>unconsolidated subsidiaries | —                 | (98,260)             | 130,091                   | 2,054                             | —            | 33,885       |
| Income tax expense (benefit)  | —                 | 12,303               | (2,504)                   | 101                               | —            | 9,900        |
| Income (loss) from continuing<br>operations before equity in<br>income of unconsolidated<br>subsidiaries                  | —                 | (110,563)            | 132,595                   | 1,953                             | —            | 23,985       |
| Equity in income of unconsolidated<br>subsidiaries  | 40,781            | 134,548              | 1,953                     | —                                 | (177,282)    | —            |
| Income (loss) from continuing<br>operations   | 40,781            | 23,985               | 134,548                   | 1,953                             | (177,282)    | 23,985       |
| Income from discontinued operations,<br>net of taxes  | —                 | 16,796               | —                         | —                                 | —            | 16,796       |
| Net income (loss)   | \$ 40,781         | \$ 40,781            | \$ 134,548                | \$ 1,953                          | \$(177,282)  | \$ 40,781    |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## CENVEO, INC. AND SUBSIDIARIES

### CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the year ended December 31, 2007

| (in thousands)  | Parent<br>Company | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|-------------------|----------------------|---------------------------|-----------------------------------|--------------|--------------|
| Cash flows from operating activities:   |                   |                      |                           |                                   |              |              |
| Net cash (used in) provided by continuing operating activities                        | \$ 10,280         | \$(65,159)           | \$ 139,178                | \$ 1,909                          | \$ —         | \$ 86,208    |
| Net cash provided by discontinued operating activities                                | —                 | 2,198                | —                         | —                                 | —            | 2,198        |
| Net cash (used in) provided by operating activities                                   | 10,280            | (62,961)             | 139,178                   | 1,909                             | —            | 88,406       |
| Cash flows from investing activities:   |                   |                      |                           |                                   |              |              |
| Cost of business acquisitions, net of cash acquired                                   | —                 | (627,304)            | —                         | —                                 | —            | (627,304)    |
| Capital expenditures  | —                 | (14,016)             | (17,522)                  | —                                 | —            | (31,538)     |
| Intercompany note   | —                 | 2,733                | —                         | —                                 | (2,733)      | —            |
| Acquisition payments  | —                 | (3,653)              | —                         | —                                 | —            | (3,653)      |
| Proceeds from sale of property, plant and equipment                                   | —                 | 8,702                | 247                       | —                                 | —            | 8,949        |
| Proceeds from divestitures, net   | —                 | 431                  | —                         | —                                 | —            | 431          |
| Net cash provided by (used in) investing activities of continuing operations          | —                 | (633,107)            | (17,275)                  | —                                 | (2,733)      | (653,115)    |
| Proceeds from the sale of discontinued operations                                     | —                 | 73,628               | —                         | —                                 | —            | 73,628       |
| Net cash provided by investing activities of discontinued operations                  | —                 | 73,628               | —                         | —                                 | —            | 73,628       |
| Net cash provided by (used in) investing activities                                   | —                 | (559,479)            | (17,275)                  | —                                 | (2,733)      | (579,487)    |
| Cash flows from financing activities:   |                   |                      |                           |                                   |              |              |
| Proceeds from issuance of Term Loans  | —                 | 720,000              | —                         | —                                 | —            | 720,000      |
| Proceeds from Unsecured Loan  | —                 | 175,000              | —                         | —                                 | —            | 175,000      |
| Borrowings under Revolving Credit Facility, net                                       | —                 | 75,700               | —                         | —                                 | —            | 75,700       |
| Proceeds from exercise of stock options   | 304               | —                    | —                         | —                                 | —            | 304          |
| Proceeds from excess tax benefit from stock based compensation                        | 67                | —                    | —                         | —                                 | —            | 67           |
| Repayment of Term Loan B  | —                 | (324,188)            | —                         | —                                 | —            | (324,188)    |
| Repayment of Cadmus revolving senior bank credit facility                             | —                 | (70,100)             | —                         | —                                 | —            | (70,100)     |
| Repayment of 8% Senior Subordinated Notes   | —                 | (20,880)             | —                         | —                                 | —            | (20,880)     |
| Repayment of 9% Notes   | —                 | (10,498)             | —                         | —                                 | —            | (10,498)     |
| Repayments of Term Loans  | —                 | (4,900)              | —                         | —                                 | —            | (4,900)      |
| Repayments of other long-term debt  | —                 | (2,477)              | (26,576)                  | —                                 | —            | (29,053)     |
| Payment of refinancing fees, redemption, premiums and expenses                        | —                 | (8,045)              | —                         | —                                 | —            | (8,045)      |
| Payment of debt issuance costs  | —                 | (5,906)              | —                         | —                                 | —            | (5,906)      |
| Purchase and retirement of common stock upon vesting of RSUs                          | (1,302)           | —                    | —                         | —                                 | —            | (1,302)      |
| Intercompany note   | —                 | —                    | (2,733)                   | —                                 | 2,733        | —            |
| Intercompany advances   | (9,349)           | 103,170              | (93,821)                  | —                                 | —            | —            |
| Net cash provided by (used in) financing activities                                   | (10,280)          | 626,876              | (123,130)                 | —                                 | 2,733        | 496,199      |
| Effect of exchange rate changes on cash and cash equivalents of continuing operations | —                 | —                    | 206                       | —                                 | —            | 206          |
| Net increase (decrease) in cash and cash equivalents                                  | —                 | 4,436                | (1,021)                   | 1,909                             | —            | 5,324        |
| Cash and cash equivalents at beginning of year  | —                 | 8,655                | 1,903                     | —                                 | —            | 10,558       |
| Cash and cash equivalents at end of year  | \$ —              | \$ 13,091            | \$ 882                    | \$ 1,909                          | \$ —         | \$ 15,882    |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## CENVEO, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATING BALANCE SHEET December 31, 2006

| (in thousands)                               | Parent<br>Company | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | As Restated<br>Consolidated |
|--|-------------------|----------------------|---------------------------|-----------------------------------|--------------|-----------------------------|
| <b>Assets</b>                                |                   |                      |                           |                                   |              |                             |
| Current assets:                              |                   |                      |                           |                                   |              |                             |
| Cash and cash equivalents                    | \$ —              | \$ 8,655             | \$ 1,903                  | \$ —                              | \$ —         | \$ 10,558                   |
| Accounts receivable, net                     | —                 | 200,140              | 28,772                    | —                                 | —            | 228,912                     |
| Inventories                                  | —                 | 80,724               | 10,810                    | —                                 | —            | 91,534                      |
| Notes receivable from subsidiaries           | —                 | 42,841               | —                         | —                                 | (42,841)     | —                           |
| Assets held for sale                         | —                 | 51,966               | —                         | —                                 | —            | 51,966                      |
| Prepaid and other current assets             | —                 | 39,461               | 1,952                     | —                                 | —            | 41,413                      |
| Total current assets                         | —                 | 423,787              | 43,437                    | —                                 | (42,841)     | 424,383                     |
| Investment in subsidiaries                   | 58,457            | 438,793              | —                         | —                                 | (497,250)    | —                           |
| Property, plant and equipment, net           | —                 | 203,036              | 48,067                    | —                                 | —            | 251,103                     |
| Goodwill                                     | —                 | 173,718              | 84,418                    | —                                 | —            | 258,136                     |
| Other intangible assets, net                 | —                 | 14,340               | 17,645                    | —                                 | —            | 31,985                      |
| Other assets, net                            | —                 | 34,243               | 42                        | —                                 | —            | 34,285                      |
| Total assets                                 | \$ 58,457         | \$ 1,287,917         | \$ 193,609                | \$ —                              | \$ (540,091) | \$ 999,892                  |
| <b>Liabilities and Shareholders' Equity</b>  |                   |                      |                           |                                   |              |                             |
| Current liabilities:                         |                   |                      |                           |                                   |              |                             |
| Current maturities of long-term debt         | \$ —              | \$ 7,434             | \$ 79                     | \$ —                              | \$ —         | \$ 7,513                    |
| Accounts payable                             | —                 | 105,978              | 10,202                    | —                                 | —            | 116,180                     |
| Accrued compensation and related liabilities | —                 | 36,103               | 4,139                     | —                                 | —            | 40,242                      |
| Other current liabilities                    | —                 | 60,383               | 3,429                     | —                                 | —            | 63,812                      |
| Intercompany payable (receivable)            | —                 | 322,265              | (322,265)                 | —                                 | —            | —                           |
| Notes payable to issuer                      | —                 | —                    | 42,841                    | —                                 | (42,841)     | —                           |
| Total current liabilities                    | —                 | 532,163              | (261,575)                 | —                                 | (42,841)     | 227,747                     |
| Long-term debt                               | —                 | 667,103              | 679                       | —                                 | —            | 667,782                     |
| Deferred income tax liability (asset)        | —                 | (3,062)              | 7,418                     | —                                 | —            | 4,356                       |
| Other liabilities                            | —                 | 33,256               | 8,294                     | —                                 | —            | 41,550                      |
| Shareholders' equity                         | 58,457            | 58,457               | 438,793                   | —                                 | (497,250)    | 58,457                      |
| Total liabilities and shareholders' equity   | \$ 58,457         | \$ 1,287,917         | \$ 193,609                | \$ —                              | \$ (540,091) | \$ 999,892                  |



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## CENVEO, INC. AND SUBSIDIARIES

### CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the year ended December 31, 2006

| (in thousands)  | Parent<br>Company | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | As Restated<br>Consolidated |
|---|-------------------|----------------------|---------------------------|-----------------------------------|--------------|-----------------------------|
| Net sales   | \$ —              | \$1,295,870          | \$ 215,354                | \$ —                              | \$ —         | \$ 1,511,224                |
| Cost of sales   | —                 | 1,049,846            | 161,938                   | —                                 | —            | 1,211,784                   |
| Selling, general and administrative   | —                 | 169,357              | 20,119                    | —                                 | —            | 189,476                     |
| Amortization of intangible assets   | —                 | 4,957                | 516                       | —                                 | —            | 5,473                       |
| Restructuring and impairment charges  | —                 | 40,948               | 148                       | —                                 | —            | 41,096                      |
| Operating income  | —                 | 30,762               | 32,633                    | —                                 | —            | 63,395                      |
| Loss on sale of non-strategic businesses  | —                 | 2,035                | —                         | —                                 | —            | 2,035                       |
| Interest expense, net   | —                 | 60,928               | 52                        | —                                 | —            | 60,980                      |
| Intercompany interest expense (income)  | —                 | (1,338)              | 1,338                     | —                                 | —            | —                           |
| Loss on early extinguishment of debt  | —                 | 32,744               | —                         | —                                 | —            | 32,744                      |
| Other income, net   | —                 | (13)                 | (65)                      | —                                 | —            | (78)                        |
| (Loss) income from continuing<br>operations before income<br>taxes and equity in income of<br>unconsolidated subsidiaries | —                 | (63,594)             | 31,308                    | —                                 | —            | (32,286)                    |
| Income tax (benefit) expense  | —                 | (21,701)             | 563                       | —                                 | —            | (21,138)                    |
| (Loss) income from continuing<br>operations before equity<br>in income of unconsolidated<br>subsidiaries                  | —                 | (41,893)             | 30,745                    | —                                 | —            | (11,148)                    |
| Equity in income of unconsolidated<br>subsidiaries  | 115,371           | 39,179               | —                         | —                                 | (154,550)    | —                           |
| Income (loss) from continuing<br>operations   | 115,371           | (2,714)              | 30,745                    | —                                 | (154,550)    | (11,148)                    |
| Income from discontinued operations,<br>net of taxes  | —                 | 118,085              | 8,434                     | —                                 | —            | 126,519                     |
| Net income (loss)   | \$115,371         | \$ 115,371           | \$ 39,179                 | \$ —                              | \$(154,550)  | \$ 115,371                  |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## CENVEO, INC. AND SUBSIDIARIES

### CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the year ended December 31, 2006

| (in thousands)                                 | Parent<br>Company | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | As Restated<br>Consolidated |
|--|-------------------|----------------------|---------------------------|-----------------------------------|--------------|-----------------------------|
| Cash flows from operating activities:          |                   |                      |                           |                                   |              |                             |
| Net cash provided by (used in)                 |                   |                      |                           |                                   |              |                             |
| continuing operating activities                | \$ 5,954          | \$ (56,113)          | \$ 64,683                 | \$ —                              | \$ —         | \$ 14,524                   |
| Net cash provided by discontinued              |                   |                      |                           |                                   |              |                             |
| operating activities                           | —                 | 6,215                | 2,617                     | —                                 | —            | 8,832                       |
| Net cash provided by (used in)                 | 5,954             | (49,898)             | 67,300                    | —                                 | —            | 23,356                      |
| Cash flows from investing activities:          |                   |                      |                           |                                   |              |                             |
| Cost of business acquisitions,                 |                   |                      |                           |                                   |              |                             |
| net of cash acquired                           | —                 | (49,425)             | —                         | —                                 | —            | (49,425)                    |
| Intercompany note                              | —                 | (42,841)             | —                         | —                                 | 42,841       | —                           |
| Capital expenditures                           | —                 | (16,695)             | (3,235)                   | —                                 | —            | (19,930)                    |
| Acquisition payments                           | —                 | (4,653)              | —                         | —                                 | —            | (4,653)                     |
| Proceeds from sale of property,                |                   |                      |                           |                                   |              |                             |
| plant and equipment                            | —                 | 11,380               | 95                        | —                                 | —            | 11,475                      |
| Proceeds from divestitures, net                | —                 | 3,189                | —                         | —                                 | —            | 3,189                       |
| Net cash used in investing activities          |                   |                      |                           |                                   |              |                             |
| of continuing operations                       | —                 | (99,045)             | (3,140)                   | —                                 | 42,841       | (59,344)                    |
| Proceeds from the sale of discontinued         |                   |                      |                           |                                   |              |                             |
| operations                                     | —                 | 211,529              | —                         | —                                 | —            | 211,529                     |
| Capital expenditures for discontinued          |                   |                      |                           |                                   |              |                             |
| operations                                     | —                 | —                    | (632)                     | —                                 | —            | (632)                       |
| Net cash provided by investing activities      |                   |                      |                           |                                   |              |                             |
| of discontinued operations                     | —                 | 211,529              | (632)                     | —                                 | —            | 210,897                     |
| Net cash (used in) provided by investing       |                   |                      |                           |                                   |              |                             |
| activities                                     | —                 | 112,484              | (3,772)                   | —                                 | 42,841       | 151,553                     |
| Cash flows from financing activities:          |                   |                      |                           |                                   |              |                             |
| Proceeds from issuance of Term Loans           | —                 | 325,000              | —                         | —                                 | —            | 325,000                     |
| Borrowings under Revolving Credit              |                   |                      |                           |                                   |              |                             |
| Facility, net                                  | —                 | 15,574               | (74)                      | —                                 | —            | 15,500                      |
| Proceeds from exercise of stock options        | 1,956             | —                    | —                         | —                                 | —            | 1,956                       |
| Proceeds from excess tax benefit from          |                   |                      |                           |                                   |              |                             |
| stock based compensation                       | 1,168             | —                    | —                         | —                                 | —            | 1,168                       |
| Repayment of 9% Notes                          | —                 | (339,502)            | —                         | —                                 | —            | (339,502)                   |
| Repayments of Term Loans                       | —                 | (813)                | —                         | —                                 | —            | (813)                       |
| (Repayments) borrowings under senior           |                   |                      |                           |                                   |              |                             |
| secured revolving credit facility, net         | —                 | (123,931)            | —                         | —                                 | —            | (123,931)                   |
| Repayments of other long-term debt             | —                 | (12,465)             | (630)                     | —                                 | —            | (13,095)                    |
| Payment of refinancing fees, redemption,       |                   |                      |                           |                                   |              |                             |
| premiums and expenses                          | —                 | (26,142)             | —                         | —                                 | —            | (26,142)                    |
| Payment of debt issuance costs                 | —                 | (3,770)              | —                         | —                                 | —            | (3,770)                     |
| Purchase and retirement of common              |                   |                      |                           |                                   |              |                             |
| stock upon vesting of RSUs                     | (1,786)           | —                    | —                         | —                                 | —            | (1,786)                     |
| Intercompany note                              | —                 | —                    | 42,841                    | —                                 | (42,841)     | —                           |
| Intercompany advances                          | (7,292)           | 112,118              | (104,826)                 | —                                 | —            | —                           |
| Net cash used in financing activities          | (5,954)           | (53,931)             | (62,689)                  | —                                 | (42,841)     | (165,415)                   |
| Effect of exchange rate changes on cash and    |                   |                      |                           |                                   |              |                             |
| cash equivalents of continuing operations      | —                 | —                    | 14                        | —                                 | —            | 14                          |
| Effect of exchange rate changes on cash and    |                   |                      |                           |                                   |              |                             |
| cash equivalents of discontinued operations    | —                 | —                    | 15                        | —                                 | —            | 15                          |
| Net increase in cash and cash equivalents      | —                 | 8,655                | 868                       | —                                 | —            | 9,523                       |
| Cash and cash equivalents at beginning of year | —                 | —                    | 1,035                     | —                                 | —            | 1,035                       |
| Cash and cash equivalents at end of year       | \$ —              | \$ 8,655             | \$ 1,903                  | \$ —                              | \$ —         | \$ 10,558                   |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## CENVEO, INC. AND SUBSIDIARIES

### CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the year ended December 31, 2005

| (in thousands)   | Parent<br>Company | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|-------------------|----------------------|---------------------------|-----------------------------------|--------------|--------------|
| Net sales  | \$ —              | \$1,390,751          | \$ 204,030                | \$ —                              | \$ —         | \$ 1,594,781 |
| Cost of sales  | —                 | 1,166,718            | 153,232                   | —                                 | —            | 1,319,950    |
| Selling, general and administrative  | —                 | 195,866              | 22,874                    | —                                 | —            | 218,740      |
| Amortization of intangible assets  | —                 | 4,971                | 176                       | —                                 | —            | 5,147        |
| Restructuring, impairment and other charges  | —                 | 76,938               | 316                       | —                                 | —            | 77,254       |
| Operating (loss) income  | —                 | (53,742)             | 27,432                    | —                                 | —            | (26,310)     |
| Loss on sale of non-strategic businesses   | —                 | 3,370                | 1,109                     | —                                 | —            | 4,479        |
| Interest expense, net  | —                 | 73,741               | 80                        | —                                 | —            | 73,821       |
| Intercompany interest expense (income)   | —                 | 697                  | (697)                     | —                                 | —            | —            |
| Other expense (income), net  | —                 | 1,464                | (321)                     | —                                 | —            | 1,143        |
| (Loss) income from continuing operations before income taxes and equity in income of unconsolidated subsidiaries | —                 | (133,014)            | 27,261                    | —                                 | —            | (105,753)    |
| Income tax expense   | —                 | 41,939               | 409                       | —                                 | —            | 42,348       |
| (Loss) income from continuing operations before equity in income of unconsolidated subsidiaries                  | —                 | (174,953)            | 26,852                    | —                                 | —            | (148,101)    |
| Equity in income of unconsolidated subsidiaries  | (135,052)         | 39,901               | —                         | —                                 | 95,151       | —            |
| (Loss) income from continuing operations   | (135,052)         | (135,052)            | 26,852                    | —                                 | 95,151       | (148,101)    |
| Income from discontinued operations, net of taxes  | —                 | —                    | 13,049                    | —                                 | —            | 13,049       |
| Net (loss) income  | \$(135,052)       | \$ (135,052)         | \$ 39,901                 | \$ —                              | \$ 95,151    | \$ (135,052) |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## CENVED, INC. AND SUBSIDIARIES

### CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the year ended December 31, 2005

| (in thousands)  | Parent<br>Company | Subsidiary<br>Issuer | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|-------------------|----------------------|---------------------------|-----------------------------------|--------------|--------------|
| Cash flows from operating activities:   |                   |                      |                           |                                   |              |              |
| Net cash (used in) provided by continuing operating activities                          | \$ 2,505          | \$(112,443)          | \$ 45,935                 | \$ —                              | \$ —         | \$ (64,003)  |
| Net cash provided by discontinued operating activities                                  | —                 | —                    | 25,330                    | —                                 | —            | 25,330       |
| Net cash (used in) provided by operating activities                                     | 2,505             | (112,443)            | 71,265                    | —                                 | —            | (38,673)     |
| Cash flows from investing activities:   |                   |                      |                           |                                   |              |              |
| Cost of business acquisitions, net of cash acquired                                     | —                 | (3,552)              | —                         | —                                 | —            | (3,552)      |
| Intercompany note   | —                 | 20,400               | —                         | —                                 | (20,400)     | —            |
| Capital expenditures  | —                 | (21,371)             | (6,783)                   | —                                 | —            | (28,154)     |
| Acquisition payments  | —                 | (4,053)              | —                         | —                                 | —            | (4,053)      |
| Proceeds from sale of property, plant and equipment                                     | —                 | 3,481                | 315                       | —                                 | —            | 3,796        |
| Proceeds from divestitures, net   | —                 | 5,622                | 2,755                     | —                                 | —            | 8,377        |
| Net cash used in investing activities of continuing operations                          | —                 | 527                  | (3,713)                   | —                                 | (20,400)     | (23,586)     |
| Proceeds from the sale of property, plant and equipment of discontinued operations      | —                 | —                    | 211                       | —                                 | —            | 211          |
| Capital expenditures for discontinued operations  | —                 | —                    | (2,603)                   | —                                 | —            | (2,603)      |
| Net cash used in investing activities of discontinued operations                        | —                 | —                    | (2,392)                   | —                                 | —            | (2,392)      |
| Net cash used in investing activities   | —                 | 527                  | (6,105)                   | —                                 | (20,400)     | (25,978)     |
| Cash flows from financing activities:   |                   |                      |                           |                                   |              |              |
| Proceeds from exercise of stock options   | 22,433            | —                    | —                         | —                                 | —            | 22,433       |
| (Repayments) borrowings under senior secured revolving credit facility, net             | —                 | 45,490               | —                         | —                                 | —            | 45,490       |
| Repayments of other long-term debt  | —                 | (2,947)              | (176)                     | —                                 | —            | (3,123)      |
| Purchase and retirement of common stock upon vesting of RSUs                            | (187)             | —                    | —                         | —                                 | —            | (187)        |
| Intercompany note   | —                 | —                    | (20,400)                  | —                                 | 20,400       | —            |
| Intercompany advances   | (24,751)          | 68,577               | (43,826)                  | —                                 | —            | —            |
| Net cash provided by financing activities   | (2,505)           | 111,120              | (64,402)                  | —                                 | 20,400       | 64,613       |
| Effect of exchange rate changes on cash and cash equivalents of continuing operations   | —                 | —                    | 107                       | —                                 | —            | 107          |
| Effect of exchange rate changes on cash and cash equivalents of discontinued operations | —                 | —                    | 170                       | —                                 | —            | 170          |
| Net increase (decrease) in cash and cash equivalents                                    | —                 | (796)                | 1,035                     | —                                 | —            | 239          |
| Cash and cash equivalents at beginning of year  | —                 | 796                  | —                         | —                                 | —            | 796          |
| Cash and cash equivalents at end of year  | \$ —              | \$ —                 | \$ 1,035                  | \$ —                              | \$ —         | \$ 1,035     |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

## 21. Quarterly Financial Data (Unaudited)

See Note 2 for details of the restatement. The following table sets forth certain quarterly financial data for the periods indicated:

|   | As Restated<br>First<br>Quarter | As Restated<br>Second<br>Quarter | As Restated<br>Third<br>Quarter | Fourth<br>Quarter |
|---|---------------------------------|----------------------------------|---------------------------------|-------------------|
| (in thousands, except per share amounts)                                    |                                 |                                  |                                 |                   |
| <b>Year Ended 2007</b>  |                                 |                                  |                                 |                   |
| Net sales   | \$414,714                       | \$496,960                        | \$550,601                       | \$584,441         |
| Gross profit  | 82,178                          | 94,743                           | 114,492                         | 126,597           |
| Operating income  | 28,239                          | 27,951                           | 27,711                          | 53,649            |
| Income from continuing operations   | 1,780                           | 2,570                            | 2,511                           | 17,124            |
| Income (loss) from discontinued operations, net of taxes                    | 16,293                          | (342)                            | (810)                           | 1,655             |
| Net income  | 18,073                          | 2,228                            | 1,701                           | 18,779            |
| Income per share from continuing operations—basic <sup>(1)</sup>            | 0.03                            | 0.05                             | 0.04                            | 0.32              |
| Income per share from continuing operations—diluted <sup>(1)</sup>          | 0.03                            | 0.05                             | 0.04                            | 0.31              |
| Income (loss) per share from discontinued operations—basic <sup>(1)</sup>   | 0.31                            | (0.01)                           | (0.01)                          | 0.03              |
| Income (loss) per share from discontinued operations—diluted <sup>(1)</sup> | 0.30                            | (0.01)                           | (0.01)                          | 0.03              |
| Net income per share—basic <sup>(1)</sup>                                   | 0.34                            | 0.04                             | 0.03                            | 0.35              |
| Net income per share—diluted <sup>(1)</sup>                                 | 0.33                            | 0.04                             | 0.03                            | 0.34              |

Condensed consolidated statements of operations line items:

|                                       | Three Months Ended<br>March 31, 2007 |                | Three Months Ended<br>June 30, 2007 |                | Three Months Ended<br>September 30, 2007 |                |
|---------------------------------------|--------------------------------------|----------------|-------------------------------------|----------------|--|----------------|
|                                       | As<br>Reported                       | As<br>Restated | As<br>Reported                      | As<br>Restated | As<br>Reported                           | As<br>Restated |
| (in thousands, except per share data) |                                      |                |                                     |                |  |                |
| Cost of sales                         | \$331,490                            | \$332,536      | \$401,220                           | \$402,217      | \$ 433,774                               | \$436,109      |
| Operating income                      | 29,285                               | 28,239         | 28,948                              | 27,951         | 30,046                                   | 27,711         |
| Income from continuing operations     |                                      |                |                                     |                |  |                |
| before taxes                          | 4,081                                | 3,035          | 5,973                               | 4,976          | 4,002                                    | 1,667          |
| Income tax expense (benefit)          | 1,684                                | 1,255          | 2,855                               | 2,406          | 160                                      | (844)          |
| Income from continuing operations     | 2,397                                | 1,780          | 3,118                               | 2,570          | 3,842                                    | 2,511          |
| Net income                            | 18,690                               | 18,073         | 2,776                               | 2,228          | 3,032                                    | 1,701          |
| Income per share – basic:             |                                      |                |                                     |                |  |                |
| Continuing operations                 | 0.04                                 | 0.03           | 0.06                                | 0.05           | 0.07                                     | 0.04           |
| Net income                            | 0.35                                 | 0.34           | 0.05                                | 0.04           | 0.06                                     | 0.03           |
| Income per share – diluted:           |                                      |                |                                     |                |  |                |
| Continuing operations                 | 0.04                                 | 0.03           | 0.06                                | 0.05           | 0.07                                     | 0.04           |
| Net income                            | 0.34                                 | 0.33           | 0.05                                | 0.04           | 0.06                                     | 0.03           |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Condensed consolidated balance sheets line items:

|  | March 31, 2007 |            | June 30, 2007 |            | September 30, 2007 |            |
|--|----------------|------------|---------------|------------|--------------------|------------|
|  | As             | As         | As            | As         | As                 | As         |
| (in thousands)                             | Reported       | Restated   | Reported      | Restated   | Reported           | Restated   |
| Accounts receivable, net                   | \$ 286,603     | \$ 284,884 | \$ 290,791    | \$ 288,410 | \$ 345,858         | \$ 344,179 |
| Inventories                                | 135,485        | 134,132    | 140,870       | 138,900    | 175,329            | 172,502    |
| Total current assets                       | 470,228        | 467,156    | 490,941       | 486,590    | 585,561            | 582,059    |
| Total assets                               | 1,589,719      | 1,586,647  | 1,610,423     | 1,606,072  | 2,025,787          | 2,022,285  |
| Accounts payable                           | 145,321        | 145,473    | 133,383       | 133,277    | 169,846            | 171,857    |
| Other current liabilities                  | 82,729         | 82,496     | 87,178        | 86,472     | 88,054             | 87,413     |
| Total current liabilities                  | 303,027        | 302,946    | 294,699       | 293,887    | 334,440            | 335,810    |
| Other liabilities                          | 75,735         | 76,645     | 74,756        | 75,666     | 97,208             | 98,118     |
| Retained deficit                           | (167,746)      | (171,647)  | (164,970)     | (169,419)  | (161,938)          | (167,720)  |
| Total shareholders' equity                 | 77,589         | 73,688     | 89,723        | 85,274     | 87,474             | 81,692     |
| Total liabilities and shareholders' equity | 1,589,719      | 1,586,647  | 1,610,423     | 1,606,072  | 2,025,787          | 2,022,285  |

Condensed consolidated statements of cash flows line items:

|  | Three Months Ended<br>March 31, 2007 |           | Six Months Ended<br>June 30, 2007 |           | Nine Months Ended<br>September 30, 2007 |           |
|--|--------------------------------------|-----------|-----------------------------------|-----------|---|-----------|
|  | As                                   | As        | As                                | As        | As                                      | As        |
| (in thousands)   | Reported                             | Restated  | Reported                          | Restated  | Reported                                | Restated  |
| Net income   | \$ 18,690                            | \$ 18,073 | \$ 21,466                         | \$ 20,301 | \$ 24,498                               | \$ 22,002 |
| Accounts receivable  | 9,102                                | 9,635     | 4,962                             | 6,157     | (5,542)                                 | (5,049)   |
| Inventories  | (4,868)                              | (4,387)   | (6,949)                           | (5,851)   | (16,845)                                | (14,890)  |
| Accounts payable and accrued compensation and related liabilities    | (1,545)                              | (1,506)   | (18,528)                          | (18,747)  | (2,276)                                 | (378)     |
| Other working capital changes  | 4,201                                | 3,765     | (515)                             | (1,424)   | (10,502)                                | (12,352)  |
| Net cash provided by continuing operating activities                 | 38,288                               | 31,888    |                                   |           |   |           |
| Proceeds from the sale of discontinued operations                    | 67,228                               | 73,628    |                                   |           |   |           |
| Net cash provided by investing activities of discontinued operations | 67,228                               | 73,628    |                                   |           |   |           |
| Net cash (used in) provided by investing activities                  | (266,840)                            | (260,440) |                                   |           |   |           |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

|   | First Quarter  |                | Second Quarter |                | Third Quarter  |                | Forth Quarter  |                |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| (in thousands,<br>except per share amounts) | As<br>Reported | As<br>Restated | As<br>Reported | As<br>Restated | As<br>Reported | As<br>Restated | As<br>Reported | As<br>Restated |
| <b>Year Ended 2006</b>                      |                |                |                |                |                |                |                |                |
| Net sales                                   | \$385,286      | \$385,286      | \$357,895      | \$357,895      | \$383,868      | \$383,868      | \$384,175      | \$384,175      |
| Gross profit                                | 75,642         | 74,353         | 73,319         | 72,314         | 76,855         | 75,380         | 76,908         | 77,393         |
| Operating income                            | 9,854          | 8,565          | 5,685          | 4,680          | 25,028         | 23,553         | 26,112         | 26,597         |
| Income (loss) from                          |                |                |                |                |                |                |                |                |
| continuing operations                       | (8,848)        | (10,456)       | (45,801)       | (23,710)       | 9,290          | 5,722          | 23,534         | 17,296         |
| Income (loss) from                          |                |                |                |                |                |                |                |                |
| discontinued operations,                    |                |                |                |                |                |                |                |                |
| net of taxes                                | 121,050        | 121,369        | 12,707         | (10,389)       | 2,326          | 4,419          | 4,397          | 11,120         |
| Net income (loss)                           | 112,202        | 110,913        | (33,094)       | (34,099)       | 11,616         | 10,141         | 27,931         | 28,416         |
| Income (loss) per share from                |                |                |                |                |                |                |                |                |
| continuing operations—                      |                |                |                |                |                |                |                |                |
| basic <sup>(1)</sup>                        | (0.17)         | (0.20)         | (0.86)         | (0.44)         | 0.18           | 0.11           | 0.44           | 0.32           |
| Income (loss) per share from                |                |                |                |                |                |                |                |                |
| continuing operations—                      |                |                |                |                |                |                |                |                |
| diluted <sup>(1)</sup>                      | (0.17)         | (0.20)         | (0.86)         | (0.44)         | 0.17           | 0.11           | 0.43           | 0.32           |
| Income (loss) per share from                |                |                |                |                |                |                |                |                |
| discontinued operations—                    |                |                |                |                |                |                |                |                |
| basic <sup>(1)</sup>                        | 2.28           | 2.29           | 0.24           | (0.20)         | 0.04           | 0.08           | 0.08           | 0.21           |
| Income (loss) per share from                |                |                |                |                |                |                |                |                |
| discontinued operations—                    |                |                |                |                |                |                |                |                |
| diluted <sup>(1)</sup>                      | 2.28           | 2.29           | 0.24           | (0.20)         | 0.04           | 0.08           | 0.08           | 0.20           |
| Net income (loss) per share—                |                |                |                |                |                |                |                |                |
| basic <sup>(1)</sup>                        | 2.11           | 2.09           | (0.62)         | (0.64)         | 0.22           | 0.19           | 0.52           | 0.53           |
| Net income (loss) per share—                |                |                |                |                |                |                |                |                |
| diluted <sup>(1)</sup>                      | 2.11           | 2.09           | (0.62)         | (0.64)         | 0.21           | 0.19           | 0.51           | 0.52           |

<sup>(1)</sup> The quarterly earnings per share information is computed separately for each period. Therefore, the sum of such quarterly per share amounts may differ from the total for the year.

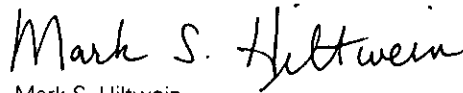
Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States. Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management has conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2007 was effective.

The Company's internal control over financial reporting as of December 31, 2007 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing on page 79.



Robert G. Burton, Sr.  
Chairman and Chief Executive Officer



Mark S. Hiltwein  
Chief Financial Officer



**To the Board of Directors and Stockholders of Cenveo, Inc.  
Stamford, Connecticut:**

We have audited the internal control over financial reporting of Cenveo, Inc. and subsidiaries (the "Company") as of December 31, 2007, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Madison Graham ColorGraphics ("Colorgraphics") and Commercial Envelope Manufacturing Co. ("Commercial Envelope") which were acquired on July 9, 2007 and August 30, 2007, respectively, and whose financial statements constitute 3.6% and 2.5% of total assets, respectively and 5.4% and 2.4% of revenues, respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2007.

Accordingly, our audit did not include the internal control over financial reporting at Colorgraphics and Commercial Envelope. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2007 of the Company and our report dated March 28, 2008 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's adoption of the provisions of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007.

*Deloitte & Touche LLP*

DELOITTE & TOUCHE LLP  
Stamford, Connecticut  
March 28, 2008

# shareholder information

## Corporate Headquarters

Cenveo, Inc.  
One Canterbury Green  
Stamford, CT 06901  
Telephone: 203-595-3000  
www.cenveo.com

## Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held in the auditorium of St. John's Episcopal Church, 628 Main Street, Stamford, CT 06901 U.S.A. on Friday, May 30, 2008 at 10:00 a.m. Eastern time.

## Market Price of Common Shares

The company's common stock is traded on the New York Stock Exchange ("NYSE"), under the symbol: "CVO". At April 3, 2008 there were approximately 290 shareholders of record and as of that date, we estimate that there were approximately 8,500 beneficial owners holding stock in nominee or "street" name. The following table sets forth, for the periods indicated, a range of the high and low sales prices for our common stock as reported by the NYSE.

| 2007        | High     | Low      |
|-------------|----------|----------|
| 1st Quarter | \$ 24.86 | \$ 20.10 |
| 2nd Quarter | 26.76    | 21.91    |
| 3rd Quarter | 24.51    | 17.67    |
| 4th Quarter | 24.15    | 17.21    |

| 2006        |          |          |
|-------------|----------|----------|
| 1st Quarter | \$ 16.58 | \$ 12.75 |
| 2nd Quarter | 19.96    | 15.01    |
| 3rd Quarter | 21.70    | 17.32    |
| 4th Quarter | 21.86    | 17.79    |

## Dividends

We have not paid a dividend on our common stock since our incorporation and do not anticipate paying dividends in the foreseeable future because our senior secured credit facility, senior notes and senior subordinated notes limit our ability to pay common stock dividends.

## Stock Transfer Agent and Registrar

Computershare Trust Company N.A.  
250 Royall Street  
Canton, MA 02021  
Telephone: 800-962-4284

## Shareholder Account Inquiries

For inquiries concerning transfer of shares, replacement of lost certificates, change of address or any questions regarding your Cenveo stock, call or write the transfer agent.

## Form 10-K/Annual Report

The Annual Report on Form 10-K is filed with the United States Securities and Exchange Commission. It is available without charge either by contacting the Office of Investor Relations or at [www.SEC.gov](http://www.SEC.gov).

## Independent Auditors

Deloitte Touche Tohmatsu  
Global Office  
1633 Broadway  
New York, New York 10019-6754  
United States  
Telephone: (212) 489-1600

Office of Investor Relations  
Cenveo, Inc.  
One Canterbury Green  
Stamford, CT 06901  
Telephone: 203-595-3005  
Facsimile: 203-595-3071

## Hotline

A 24-hour anonymous incident reporting hotline is available to all employees and all stockholders. To make a confidential and anonymous report, log on to [www.mysafeworkplace.com](http://www.mysafeworkplace.com) or call (800) 513-4056.

Printed on Donnar "Cougar Opaque"  
Printing: Anderson Lithograph, a Cenveo Company  
Creative Direction: Jaime Zambrana



The cover, narrative and financial papers utilized in the printing of this Annual Report are certified by the Forest Stewardship Council, which promotes environmentally appropriate, socially beneficial and economically viable management of the world's forest. These papers contain a mix of pulp that is derived from FSC certified well-managed forests; post-consumer recycled paper fibers and other controlled sources. Cenveo Anderson Lithograph's FSC "Chain of Custody" certification is SCS-COC-00533. Cenveo Anderson Lithograph produces all of its own electricity and is certified as a "totally enclosed" facility that releases virtually no volatile organic compound emissions into the atmosphere.

**One Canterbury Green  
201 Broad Street  
Stamford, CT 06901  
203-595-3000**

**[www.cenveo.com](http://www.cenveo.com)**

**END**